

Transmitted via e-mail

June 30, 2011

Mr. Joseph Edmiston, Executive Director/Officer
Santa Monica Mountains Conservancy
Mountains Recreation and Conservation Authority
5750 Ramirez Canyon Road
Malibu, CA 90265

Dear Mr. Edmiston:

Final Report—Audit of Santa Monica Mountains Conservancy's Propositions 12, 13, 40, 50, and 84 Bond Funds

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of the Santa Monica Mountains Conservancy's Propositions 12, 13, 40, 50, and 84 bond funds for the period ending June 30, 2009.

The enclosed report is for your information and use. The Conservancy's and Authority's responses to the report observations and our evaluation of their responses are incorporated into this final report. The responses indicate willingness to address certain recommendations. In our evaluation, we have provided clarification on recommendations that were not fully addressed by the Conservancy and the Authority.

This report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov/> within five working days of this transmittal.

A detailed Corrective Action Plan (CAP) addressing the observations and recommendations is due within 60 days from receipt of this letter. The CAP should include milestones and target dates to correct all deficiencies.

If you have any questions regarding this report, please contact Diana Antony, Manager, or Beliz Chappuie, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Rorie Skei, Chief Deputy Director, Santa Monica Mountains Conservancy
Ms. Laurie Collins, Staff Counsel, Santa Monica Mountains Conservancy
Mr. Jim Friedl, Financial Officer, Mountains Recreation and Conservation Authority;
General Manager, Conejo Recreation and Park District
Ms. Sheryl Lewanda, CPA, Deputy Financial Officer, Mountains Recreation and
Conservation Authority; Management Services Administrator, Conejo Recreation and
Park District
Mr. Jeff Jones, Assistant Financial Officer, Mountains Recreation and Conservation
Authority
Mr. Jeff Maloney, Staff Counsel, Mountains Recreation and Conservation Authority
Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, California Natural
Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency

AN AUDIT OF BOND FUNDS

Santa Monica Mountains Conservancy Propositions 12, 13, 40, 50, and 84



View of King Gillette Ranch
Source: Picture taken during site visit.

Prepared By:
Office of State Audits and Evaluations
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Final reports are available on our website at <http://www.dof.ca.gov>

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TABLE OF CONTENTS

| | |
|--|----|
| Executive Summary | 1 |
| Background, Scope, and Methodology..... | 2 |
| Results..... | 6 |
| Appendix A—Status of Prior Audit Findings | 20 |
| Appendix B—List of Projects Reviewed at Santa Monica Mountains Conservancy | 21 |
| Appendix C—List of Conservancy’s Grant Audits Completed..... | 22 |
| Appendix D—Grant SMM-0606 Budgeted vs. Claimed Expenditures..... | 23 |
| Appendix E—Criteria: Determining Eligibility of Maintenance Costs..... | 24 |
| Appendix F—Grant SMM-0464 Scope of Work | 25 |
| Appendix G—Grant SMM-0607 Scope of Work | 30 |
| Appendix H—Grant SMM-0754 Scope of Work..... | 36 |
| Responses..... | 46 |
| Evaluation of Responses | 67 |

EXECUTIVE SUMMARY

In accordance with the Department of Finance's (Finance) bond oversight responsibilities, we audited the Santa Monica Mountains Conservancy's (Conservancy) Propositions 12, 13, 40, 50, and 84 funding as of June 30, 2009. The audit objectives were to determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and to determine if the Conservancy had adequate project monitoring processes in place. Additionally, we followed-up on prior audit findings included in our May 4, 2004 and May 24, 2006 audit reports.

The Conservancy has established fiscal controls in response to our prior audit findings and the bond accountability Executive Order S-02-07. Although some controls have improved, daily operations at both the Conservancy and its major grantee, the Mountains Recreation and Conservation Authority (Authority), are still overseen by the same executive team. As noted in previous audit reports, without proper safeguards, having the same executives in charge of both organizations (as grantor and grantee) creates independence impairments that can compromise effective oversight of state funds. These impairments are illustrated by some of the following practices that demonstrate ineffective oversight and accountability:

- The Conservancy and Authority negotiated a settlement agreement for questioned costs reported in our prior audit reports. However, as of the date of this audit, the transaction was incomplete (the Offer to Dedicate has not been fully exercised for the state to realize the related asset in exchange for the \$2.1 million debt owed by the Authority).
- The Conservancy continues to award project planning and design (PPD) grants to the Authority that are not project specific. Despite the Authority's assurance to the Attorney General's Office, the project costs are not tracked at the project level. Neither the Conservancy nor the Authority could provide supporting documentation to match the incurred costs for specific projects.
- Some grants fund the Authority's operation and maintenance activities which may not be eligible for bond funds. Moreover, pursuant to a written agreement between the Conservancy and Authority, the Authority is obligated to provide these same services for the properties it manages using the various local funding sources and generated revenues. However, the Conservancy does not require the Authority to demonstrate how these funds are used in conjunction with bond funds.
- Contracting and monitoring continues to need improvement. Grants awarded to the Authority overlap in scope and are issued with multiple projects under one grant, precluding adequate cost accountability and transparency. Project scopes and budgets are vague, progress reports and reimbursement claims are incomplete and inconsistent with grant scopes and budgets, and other project funding sources are not reported.

- Limits and eligibility for grantees' indirect costs claimed on bond projects are not established. Other state departments administering bond funds limit such expenditures to 10 to 15 percent or completely disallow them.
- Real property is not recorded and reported accurately.

Collectively, these issues raise questions as to whether fiduciary responsibilities over bond funds have been met. These issues, if left unresolved, will continue to adversely affect bond accountability. The Conservancy should develop a corrective action plan to address the report's observations and recommendations.

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

Between March 2000 and November 2006, California voters passed five bond measures totaling \$15.5 billion:

- Proposition 12—The Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000
- Proposition 13—The Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Act of 2000
- Proposition 40—The California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002
- Proposition 50—The Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002
- Proposition 84—The Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006

These propositions authorized the sale of bonds to finance a variety of resource programs. Administered by a number of state agencies, departments, boards, and conservancies the proceeds from these bonds support a broad range of programs that protect, preserve, and improve California's water and air quality, open space, public parks, wildlife habitats, and historical and cultural resources. Bond proceeds are expended directly by the administering departments on various capital outlay projects, and are also disbursed to federal, state, local, and nonprofit entities in the form of grants, contracts, and loans.

Santa Monica Mountains Conservancy

Source: Conservancy's website

The Santa Monica Mountains Conservancy (Conservancy) was established by the California State Legislature in 1980. The Conservancy's mission is to buy back, preserve, protect, restore, and enhance treasured pieces of Southern California to form an interlinking system of urban, rural and river parks, open space, trails, and wildlife habitats that are easily accessible to the general public. The Conservancy's strategic objectives are defined in various plans: the Santa Monica Mountains Comprehensive Plan, the Rim of the Valley Trail Corridor Master Plan, the Los Angeles County River Master Plan, and the San Gabriel and Los Angeles Rivers Watershed and Open Space Plan.

The Conservancy's governing board consists of nine voting members and three ex-officio members. The members represent community, local, state, and federal government groups. Additionally, the Conservancy has an Advisory Committee of 26 community members. The Advisory Committee meets jointly with the governing board and offers citizens the opportunity for participation. Further, the Conservancy has six legislative participants consisting of three members of the Senate and three members of the Assembly.

The Conservancy has three full-time staff (the Executive Director, Chief Deputy Director, and Chief Staff Counsel) and two part-time staff (the Deputy Director for Natural Resources and Planning and an Executive Secretary).

The bond proceeds have been the Conservancy's primary funding source during fiscal years 2000-01 through 2008-09. Cumulatively, bond fund appropriations constituted over 96 percent of the Conservancy's funding during these years (Table 1). The remaining funding sources were derived from the General Fund, California Environmental License Plate Fund, and the Santa Monica Mountains Conservancy Fund.

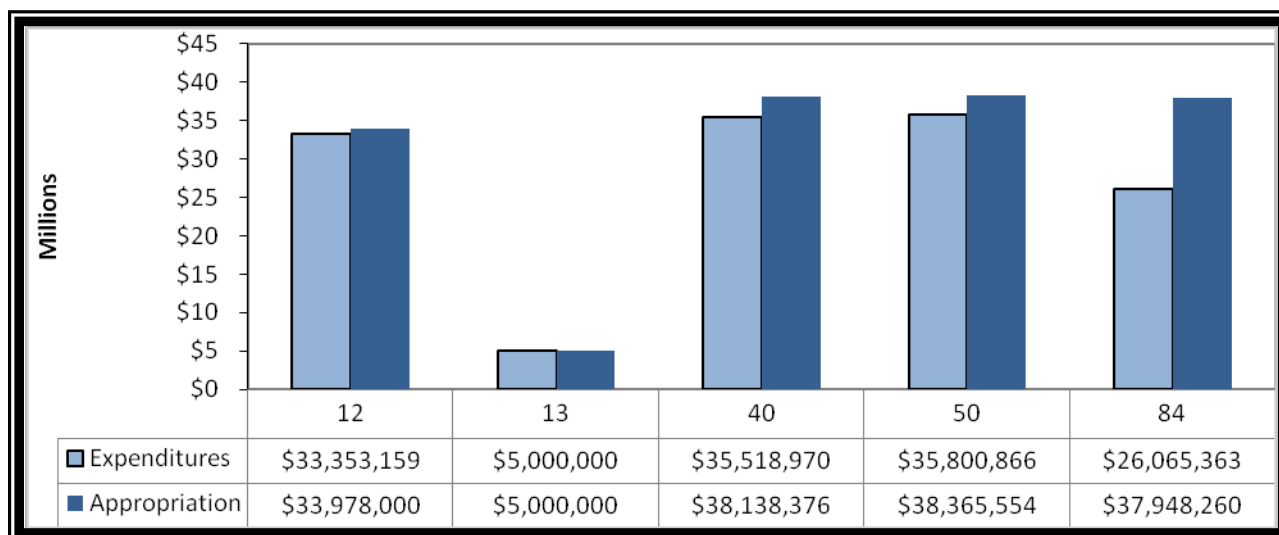
Table 1: Cumulative Funding for Fiscal Years 2000-01 through 2008-09 (in millions)

| | Other | Bonds | Totals |
|-------------------|-------|---------|--------------|
| Funding | \$5.6 | \$153.4 | \$159 |
| Percentage | 3.5% | 96.5% | 100% |

Source: Budget Act

Of the \$153.4 million bond funds appropriated to the Conservancy, \$135.7 million (88 percent) has been committed or expended as of June 30, 2009 (Figure 1). The bond proceeds funded state operations and projects in four general categories: acquisitions, development and restoration, planning and design, and education and interpretation.

Figure 1: Proposition Appropriations Committed or Expended as of June 20, 2009



Source: Conservancy's accounting records

Partnering with Other Public Agencies and Joint Powers Authorities

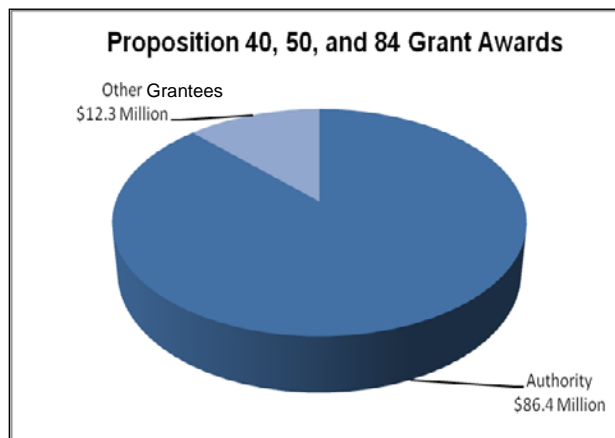
The Conservancy works with local governments, joint powers entities, state and federal agencies, landowners, and community-based organizations. Partners include the National Park Service, the California Department of Parks and Recreation, and seven joint powers authorities (JPA).

The JPAs are formed pursuant to the provisions of Government Code Section 6500, et seq. by two or more government agencies with an agreement to jointly exercise powers common to the

contracting parties. Each JPA functions as a separate legal entity from its contracting members to carry out the objectives defined in the agreements. In performing its operations, the JPAs exchange services and resources with its partners.

Figure 2: Conservancy Bond Awards as of June 30, 2009

In terms of bond grants awarded, the Mountains Recreation and Conservation Authority (Authority) is the major JPA the Conservancy has partnered with. The Conservancy's executive director, deputy director, and chief counsel have dual roles as both the Conservancy's and Authority's executive team. The Conservancy awarded \$86.4 million in bond grants to the Authority which constitutes 88 percent of the Conservancy's proposition 40, 50, and 84 capital outlay and local assistance expenditures (Figure 2).



SCOPE

The audit was conducted to determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and to determine if the Conservancy had adequate project monitoring processes in place. The audit focused on Propositions 40, 50, and 84, which represents 71 percent of expenditures as of June 30, 2009; and also followed-up on Proposition 12 and 13 management issues from previous audit reports.

Due to the magnitude of bond funds disbursed to the Authority, the audit also included a limited review of the Authority's bond projects and related controls.

The audit did not include an assessment of the bond authorization, issuance, and sale processes, or an examination of the efficiency or effectiveness of program operations. Further, no assessment was performed on the reasonableness of the land acquisition costs or the conservation value of the land acquired or projects completed.

METHODOLOGY

To determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and whether the Conservancy had adequate monitoring processes, we performed the following procedures:

- Reviewed applicable bond acts and the Conservancy's grant management policies, procedures, strategic plans, legal provisions and regulations.
- Interviewed key personnel responsible for administering bond funds to obtain an understanding of how the Conservancy and Authority oversee various project stages: pre-award, award, interim monitoring, close-out, and post-close monitoring.
- Conducted a follow-up on Department of Finance's prior audit reports issued May 4, 2004 and May 24, 2006.

- Examined a sample of project files to determine if the projects stayed within scope and cost and to determine if the project expenditures were allowable and supported. The projects were selected from planning and development and restoration projects awarded to the Authority
- Performed three separate grant audits (see Appendix C for list and link to audit reports).
- Identified and assessed the project tracking methods to determine their adequacy for monitoring projects.
- Reviewed public websites to determine completeness and accuracy of reported project status.
- Reviewed a sample of expenditures to verify accuracy of recorded and reported financial information.
- Reviewed the reasonableness of the Conservancy's administrative expenditures charged to bond funds.

Multiple discussions were held with the Conservancy and Authority throughout our audit to discuss and provide specific project review details. Recommendations were developed based on review of documentation made available to us and interviews with Conservancy and Authority management and key staff directly responsible for administering bond funds. This audit was conducted during the period October 2009 through May 2011.

Except as noted, this performance audit was conducted in accordance with generally accepted government auditing standards, issued by the Comptroller General of the United States. In connection with this audit, there are certain disclosures required by government auditing standards. The Department of Finance is not independent of the Conservancy, as both are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, the Department of Finance performs certain management and accounting functions. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.

The Conservancy has established fiscal controls in response to our prior audit findings, as noted in Appendix A, and most recently in response to the bond accountability Executive Order S-02-07. However, as noted in the Background section of this report, daily operations at both the Conservancy and its major grantee, the Mountains Recreation and Conservation Authority (Authority), are overseen by the same executive team. As a result, these executives are ultimately responsible for contract performance as both grantor and grantee. Although formed as separate legal entities, the lack of operational independence between the Conservancy and Authority continues to compromise bond fiscal oversight, as illustrated by the lack of corrective actions for some prior audit findings and additional fiscal weaknesses found during this audit.

The following observations are intended to assist the Conservancy in its fiduciary responsibility over bond funds.

Observation 1: The \$2.1 Million Settlement Transaction Is Incomplete—State Did Not Realize Related Asset

In the prior Finance audit reports dated May 4, 2004 and May 24, 2006, the findings questioned several grants issued to the Authority. Pursuant to legislative directive, the Office of Attorney General (AG) reviewed the grants and concluded that \$2.1 million in bond funds should be recovered. In May 2006, the Conservancy and Authority negotiated a settlement agreement where the Authority provided an Offer to Dedicate (OTD) real property to the Conservancy in exchange for the relief of the \$2.1 million debt.

As of April 2011, the transaction was incomplete; however, the state dismissed a debt receivable without recording an asset in its financial records. According to the Conservancy, it has not completed the transaction because the state does not want to incur additional property management costs. However, in response to the Department of Finance's 2006 inquiries regarding the potential operational costs associated with this property, the AG stated the Conservancy, under a written agreement, used the Authority to manage its properties and would merge the property into that process once the dedication was accepted. Thus the state would *not* incur additional property management costs. Based on these conflicting comments, it is unclear why the Conservancy had not previously completed the transaction.

Further, as noted in Observation 3, the Conservancy provides bond funding to the Authority for operation and maintenance type activities on properties managed by the Authority. As a result, the state is incurring operational and maintenance costs despite the written agreement noted above.

Lastly, we noted the subject property was previously *dedicated public open space* as part of the Ahmanson Ranch Development Agreement and was transferred to the Authority in 1998 for stewardship purposes. Consequently, it is unclear what *additional* tangible value the state received in exchange for the relief of public debt, because the property was already public open space.

Recommendations:

- A. Provide the current status regarding acceptance of the OTD, including the additional operational costs the state will incur if the OTD is accepted and how they will be funded.
- B. Because the property was already public open space, demonstrate what *additional value* the state received in exchange for the relief of public debt.

Observation 2: The Conservancy Continues to Issue Project Planning and Design Grants That Are Not Project Specific

As noted in our prior audit, the Conservancy continues to award project planning and design (PPD) grants to the Authority that are not attributable to a specific project. Our May 2004 audit report questioned four PPD grants totaling \$2.2 million. As noted below, since 2004, the Conservancy issued an additional \$2.37 million in PPD grants.

| <u>Grant Number</u> | <u>Period</u> | <u>Original Amount</u> | <u>Amended Amount</u> | <u>Reference</u> |
|---------------------|---------------|------------------------|-----------------------|------------------|
| SMM-0464 | 2004-09 | \$ 200,000 | \$1,070,000 | Appendix F |
| SMM-0607 | 2006-09 | \$ 400,000 | \$ 550,000 | Appendix G |
| SMM-0754 | 2007-10 | \$ 650,000 | \$ 750,000 | Appendix H |
| Total: | | \$1,250,000 | \$2,370,000 | |

Pursuant to our prior audit, the AG's office advised the Conservancy that project planning grants required specific project identification. On January 11, 2008, the Authority specifically confirmed to the AG in writing that it "employs a multi-level project accounting system which allows for tracking of costs and expenses at the tertiary level." The Authority further confirmed that project managers would be "required to submit bi-weekly timesheets which record amount of actual time spent on each component of this grant, and will be project specific."

However, based on a review of supporting documentation, including staff time records, the tasks and costs are not tracked at the project level. Neither the Conservancy nor the Authority could provide supporting documentation to match the incurred costs to specific projects.

Based on our review, these grants fund preliminary planning costs that are not project specific and don't always lead to an acquisition or construction project. Typically, preliminary planning costs are considered program delivery activities and are either absorbed by the grantor implementing the bond programs, or by grantees prior to applying for project specific funding. As noted in the text box, project costs and program delivery costs must be tracked separately because bond acts limit amounts spent on program delivery. Other agencies award planning grants on a per-project basis. The Conservancy also awards project-specific planning grants; however, the PPD grants listed

Project Costs: Costs associated with individual projects. A project is the acquisition, development, enhancement, rehabilitation, or other activity to be accomplished with bond funds. Generally, projects are associated with a specific geographic location or locations.

Program Delivery: Department costs to implement the bond funded programs. These are costs that are not directly attributable to the individual projects. Costs include (1) distributed department support costs (i.e. personnel, accounting, budgeting, operational expenditures) and (2) direct bond program administrative costs (i.e. grant office administration, program technical assistance). *Many bond acts restrict program delivery costs to 5 percent.*

above are for multiple “potential” projects that provide continuous funding for the same projects and activities for over six years. See Appendices F, G, and H for example grant scopes.

When we inquired, the Conservancy stated, “Acquisition and improvement projects require extensive work over a long period of time *prior to its being ready and eligible for direct acquisition* and construction funding. Some grantees are able to absorb those project development costs, but many need some assistance. Likewise, the Conservancy does not have the *support budget* to fund the sustained development of dozens of complex multi-year projects.”

Consequently, the Conservancy is funding its program operations via grants to the Authority. In this case, the grantee is doing things that the Conservancy would have otherwise had to do; however, because the funds are disbursed via capital outlay grants, support costs charged to bond funds are unaccounted for. Administrative costs charged to bond proceeds must be separately tracked to ensure limits are not exceeded. Public Resources Code section 75070.5 (Proposition 84) restricts program administrative costs to no more than 5 percent. Additionally, although Proposition 84 allows up to 10 percent for planning costs, departments must obtain prior approval from the Department of Finance and the Natural Resources Agency.

Lastly, as noted in Observation 4, these grants are issued with overlapping scopes and time periods, and are continuously augmented and extended with minimal justification. Moreover, the project status reports are questionable—in one case the Authority submitted the same project status report for two separate grants.

Recommendations:

- A. Discontinue issuing multi-project PPD grants. Planning grants should only be issued for specific projects.
- B. Account for project and program delivery costs separately.
- C. Discontinue awarding grants for program administrative functions using capital outlay funding. Request and obtain approval for support or administrative funding from the Department of Finance.
- D. The Natural Resources Agency should, with the assistance of legal counsel, determine the appropriate disposition (recovery or refund) of all expended bond funds used for these purposes.
- E. Obtain prior approvals as required prior to incurring Proposition 84 planning costs. If approved, separately account for these costs to ensure compliance with the 10 percent cap.

Observation 3: Bond Grants Fund Operation and Maintenance Activities

Based on a sample of grants reviewed, we identified a number of grants to the Authority as listed below that fund operation and maintenance type activities that may not be eligible for bond funds. Moreover, pursuant to a written agreement, the Authority is obligated to provide these same services for the properties it manages. The Authority receives various local funding and generates revenues to fund these activities, yet the Conservancy does not require the Authority to demonstrate how these funds are used in conjunction with bond funds. Finally, these same grants improperly fund facility operations on state owned properties.

| <u>Grant Number</u> | <u>Grant Amount</u> | <u>Project Scope/Purpose</u> |
|---------------------|---------------------|--|
| SMM-0606 | \$ 468,800 | Minor Capital Outlay & Resource Protection (Prop 40) |
| SMM-0853 | \$ 400,000 | Minor Capital Outlay (Prop 84) |
| SMM-0641 | \$ 330,000 | Trails Restoration & Resource Protection (Prop 40) |
| SMM-0757 | \$2,150,000 | Fuel Hazard (Prop 84) |

Bond Grants Fund the Authority's Operations and Maintenance Activities

Grant SMM-0606 funds the Authority's backlog of park maintenance and repairs due to years of deferred maintenance, including normal wear and tear, vandalism, graffiti, and deterioration. Project examples under this grant include:

| <u>Project</u> | <u>Amount</u> | <u>Project Scope/Purpose</u> |
|----------------|---------------|--|
| Brown's Canyon | \$1,850 | Road grading (\$1,500), sign replacements (\$350) |
| Rocky Peak | \$4,300 | Trailhead & fire road grading (\$1,500), kiosk sign replacement (\$2,500), repair/painting (\$300) |
| Katz Overlook | \$4,000 | Asphalt seal (\$1,500), re-stripe (\$500), stonework repair (\$1,500), sign replacement (\$500) |

As directed by the Legislature, the Conservancy's grants are reviewed by the Office of the Attorney General for compliance with the General Obligation Bond Law and the pertinent bond acts. In this case, the AG's review considered these grants as major maintenance activities and therefore capital improvements. However, the General Obligation Bond Law provides a limited definition of capital projects and it does not define working capital type projects. As noted by the Attorney General, its review "...does not address other questions such as amount of the grant or compliance with other statutes." While we are not questioning the AG's interpretation of the grants compliance with the General Obligation Bond Law, we identified some ambiguities in interpretation of certain activities and costs that warrant further review. When reviewed in conjunction with Generally Accepted Accounting Principles (GAAP), the State Administrative Manual (SAM), and other authoritative sources, including other resource departments, these projects are considered operational expenditures that *maintain facilities at their designed level*. By definition, deferred maintenance is maintenance and repairs that have been postponed. Capital expenditures are alterations, renovations, additions or betterments which *extend the design life or alters/upgrades the function of a structure*. See Appendix E for further definitions. All grants listed above included some operation and maintenance type activities. Properly identifying and defining these types of activities and costs is critical because each has its distinct funding and cost accounting implications as well as state bond reporting requirements.

Capital Project

A project to acquire, construct, or improve property, including land, buildings and equipment, or to adapt property to a new use. It includes new construction (or initial restoration) to provide *new or expanded services and functions*.

Working Capital Project

A project that involves only ongoing operations, repair, or maintenance costs, regardless of whether the repair or maintenance may last more than one year. It includes projects to *repair or replace damages resulting from inadequate ongoing maintenance*.

As the state agency administering bond funds, the Conservancy is responsible for complying with and using pertinent state authoritative sources to determine the appropriate project funding mechanisms. The Conservancy is also responsible for correctly categorizing and reporting its

bond grants and activities to the State Treasurer's Office. The State Treasurer's Office tracks working capital expenditures to ensure they do not exceed established limits for tax purposes.

Other Funding Sources Not Considered

As noted in the table below, the Authority receives various funding for its property management operations including Proposition A, Benefit Assessment District funds, and property generated revenues. Unlike other state entities, the Conservancy does not require the Authority to disclose these additional sources and how they are used in conjunction with bond funds. Moreover, because the Conservancy does not consider these funding sources, one of the risks is the bond funds may be disproportionately subsidizing the Authority's property operations and maintenance activities.

Table 2: Other Funding Sources For Fiscal Year 2008-09

| Funding Source | Amount | Use |
|----------------------------------|---------------|--------------|
| Revenues | \$5.6 million | Unrestricted |
| Proposition A (local bond fund) | \$1.6 million | Maintenance |
| Benefit Assessment District Fees | \$0.3 million | Maintenance |

For example, the Conservancy's and Authority's current Memorandum of Understanding (MOU)¹ and bond grant agreements require the Authority to perform maintenance operations on state owned properties using revenues generated. We note that approximately \$600,000 was used for the Authority's unrestricted operations and administrative costs, including interest on loans, legal fees, food/kitchen, and per diem expenses.

Additionally, Proposition A and benefit assessment district fees provide funding for the Authority's maintenance services, including brush clearing. However, Grant SMM-757 for

Authority Management Obligations Pursuant To MOU

The Authority shall perform the following management obligations as required at the Conservancy's Properties:

- Overall resource management and maintenance of the Properties
- Vegetation management and fuel modifications;
- Trailhead and trail construction and maintenance;
- Construction, maintenance, and repair of visitor serving amenities such as parking lots, restrooms, resource interpretation signage, and kiosks;
- Trash, dumping, and graffiti removal;
- Environmental education, including but not limited to operating camp programs, operating nature centers and outdoor classrooms, and interpretation programs; and,
- All uses consistent with Public Resources Code Section 33211.5(d)

\$2.2 million funded brush clearing services on several local properties, including these same

¹ Memorandum of Understanding Regarding Operations and Management of Santa Monica Mountains Conservancy Properties and Exchange of Services, Equipment, and Office Facilities, pursuant to Conservancy Resolution No. 08-43 adopted May 12, 2008 and Authority Resolution No. 08-78 adopted May 7, 2008.

benefit assessment district properties. Proposition 84 allows bond funds to be used for elimination of exotic species and fuel hazard reduction activities.

The Conservancy's 3-Part Bond Accountability Plan requires all grantees to report a detailed list of all project funding sources and amounts.

The Conservancy's Grant Procedures, section 5, requires the Conservancy to perform post-grant monitoring for selected properties to ensure grantees are adequately maintaining the project. It further requires a post-grant monitoring report be filed in the grant's original file and issuance of a notification to grantees found to have substantial deficiencies. The notification shall detail the deficiencies and provide a schedule to the grantee to remediate the deficiencies.

In accordance with the MOU, section 1.2, the Conservancy's and Authority's governing boards are required to annually review performance under the agreement to ensure there continues to be efficiency savings and mutual benefit to the parties.

Bond Grants Fund State Facility Operations

These same grants fund operations and maintenance costs on state owned properties which should be funded with support appropriations instead of capital outlay. SAM section 6800 classifies maintenance, including deferred maintenance, as a facility related expense and should be budgeted as facilities operations in the department's operating expense schedule.

SAM section 8600 defines standard property accounting policies and procedures to be used to provide accurate records for the acquisition, maintenance, control, and disposition of property.

Lastly, as noted in Observation 4, because these grants fund multiple project locations and the Conservancy does not require the Authority to provide costs incurred per project, the Conservancy cannot ensure projects stay within budgeted scope and cost.

Recommendations:

The Conservancy should:

- A. With the assistance of the Natural Resources Agency, legal counsel, the State Treasurer's Office, and the Department of Finance—Fiscal Systems and Consulting Unit, define and establish uniform definitions for capital and non-capital bond expenditures, including operations and maintenance, consistent with all pertinent authoritative sources, including the Internal Revenue Service, GAAP, SAM, and bond act provisions.
- B. Review project costs for all similar grants in addition to the projects noted above to ensure accurate bond reporting requirements are met.
- C. Perform a post-grant monitoring review on state properties managed by the Authority in accordance with Grant Procedures section 5 to ensure the Authority is adequately maintaining the projects.
- D. Require the Authority to demonstrate how all funding sources noted above were used in conjunction with bond funds.

Observation 4: Grants With Overlapping Scopes, Projects, and Time Periods Lead to Lack of Project Cost Accountability

As noted in Observations 2 and 3, the Conservancy issues grants to the Authority with broad overlapping scopes and multiple project locations (block) under one grant. This practice precludes proper accountability over bond fund expenditures.

Table 3: Grants With Overlapping Locations, Scopes, and Periods

| Project Type | Project Number | Location Overlap | Scope Overlap | Period Overlap |
|--|--|---|---|----------------|
| Minor Capital Outlay and Trail Restoration | SMM-0606 SMM-0641 SMM-0853 SMM-0605 | Various parks and trails | <ul style="list-style-type: none">• Signs and Displays• Facility/Amenity Repairs• Plant Removal• Trail Repairs | 2006-2009 |
| Project, Planning and Design | SMM-0464 SMM-0754 SMM-0607 | Upper LA River Watershed Coastal Watersheds of SMM Inland Canyon Watersheds | Planning and Permitting Related to acquisition and protection projects. | 2004-2010 |

The block grants include multiple project locations and the Conservancy does not require the Authority to provide total costs incurred for each project. Neither the Conservancy nor the Authority could provide a bridging document to match the expenditures incurred to the grant budget. Without supporting documentation, the Conservancy is unable to demonstrate whether a project was completed within scope and budget. In some instances, the Conservancy could not demonstrate if all listed projects were completed.

For example, SMM-0606, Minor Capital Outlay Grant, listed 27 locations with multiple tasks. The status reports for the period July 2006 through June 2009 indicated 50 percent of the listed tasks were performed at only 16 of 27 locations. However, for the same time period, the Authority claimed reimbursement for 94 percent (\$444,109/\$468,000) of the grant amount. The final completion report also did not include project detail. The Conservancy paid the claims without further clarification. Similarly, the project, planning, and design (PPD) grant claims do not specify the cost of each project. Refer to Observation 2 for additional issues noted on the PPD grants.

Additionally, grants are issued with overlapping scopes and periods. For example, SMM-0606, SMM-0641, and SMM-0853 all overlapped in project location and tasks. When comparing each grant's location and task, we noted each overlapped by over 50 percent. As a result, we noted instances where project costs that exceeded budgeted amounts on one grant were transferred to another grant.

Executive Order S-02-07 requires each department to document the ongoing actions it takes to ensure projects are staying within scope and cost.

Government Code section 13402 specifies state agency heads are responsible for the establishment and maintenance of systems of internal accounting and administrative controls within their agencies. The elements of a satisfactory system of internal controls include, but are not limited to, a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures; and an effective system of internal review.

Recommendation:

Discontinue awarding multi-project (block) grants and only award bond grants on a specific project location basis.

Observation 5: The Conservancy Has Not Established Grantee Indirect Costs Policies

The Conservancy has not established limits or defined eligibility for grantees' indirect costs claimed on bond projects. Additionally, the Conservancy's grant budgets do not include a line item for indirect project costs.

The sample projects reviewed included indirect charges—overhead and transportation costs—as much as 27 percent of claimed grant expenditures. Several departments administering bond programs have established a 10 to 15 percent cap or have completely disallowed overhead charges. The Authority's indirect cost distribution methodology allocates the costs to projects based on labor hours. For fiscal year 2008-09, the Authority's total distributed indirect costs for overhead and transportation were as follows:

| | |
|--------------------|----------------------|
| \$2,386,918 | Overhead costs |
| <u>818,611</u> | Transportation costs |
| <u>\$3,205,529</u> | Total |

The Authority developed and implemented a new cost allocation plan after our May 4, 2004 audit report. During our current review, we have noted the following areas for improvement:

- *The Authority's transportation cost pool allocation is not consistent with the adopted plan.* The transportation costs are not allocated to projects based on actual reported monthly hours of each individual assigned a vehicle; rather, they are distributed by total actual labor hours regardless of whether the individual is assigned a vehicle or not.
- *Professional services lack written agreement/contract.* The Authority does not have a service agreement to support \$275,736 for Conejo Recreation and Park District Fiscal Services (District) included in the overhead costs for fiscal year 2008-09. While we recognize the District provides accounting and fiscal services to the Authority, all professional services should have a written agreement detailing the services to be provided and related costs. And although the JPA describes the District's fiscal service responsibilities, it does not address related costs. Without approved costs, the adequacy of the services provided and reasonableness of costs cannot be assessed.
- *Vehicle and cell phone costs should be reviewed to achieve savings.* Specifically, 91 of 130, or 70 percent, Authority staff are issued vehicles with take home permits, including administrative and accounting personnel. Additionally, 117 of 130 (90 percent) Authority staff are issued cell phones.

As noted above, these costs are allocated to bond grants as indirect costs. When inquired, the Conservancy stated, "Grant management procedures do not require the Conservancy to establish limits and define eligibility for grantee's indirect costs. Nor are grant budgets required to include a specific line item for indirect costs."

It is the Conservancy's fiduciary responsibility to develop and implement fiscal controls to minimize administrative costs charged to bond funds. The intent of the voters is to maximize the use of bond proceeds for the projects/capital assets approved by the bond acts. Additionally, in light of the

state's current economic condition, state departments are required to review and establish reasonable fiscal policies.

The Financial Integrity and State Manager's Accountability Act of 1983 states, "All levels of management of the state agencies must be involved in assessing and strengthening the systems of internal accounting and administrative control to minimize fraud, errors, abuse, and waste of government funds."

Recommendation:

Develop policies to define and establish limits over grantee indirect costs. Evaluate current costs included in the Authority's indirect cost allocation plan to identify potential cost savings.

Observation 6: Inadequate Grant Contracting and Monitoring Leads to Lack of Accountability and Transparency Over Bond Funded Projects

Despite some corrective actions taken by the Conservancy following the 2004 and 2006 Finance audits, the Conservancy continues to lack adequate grant contracting and monitoring procedures. Based on a review of 23 projects, the following fiscal control weaknesses were noted:

- *Grant agreements lack clear project scope, tasks, and budget detail.* This was a prior 2004 audit finding. In some cases, the grant budgets included one line item such as "planning" or "construction" without task or cost detail. For example, SMM-752 and SMM-0836 both had "Construction" as the budgeted task without task or cost detail. In other cases, the grants may specify project tasks and budget detail; however, the Authority does not submit invoices consistent with the grant scope and budget. See Appendix D for example.
- *Progress reports and reimbursement claims are incomplete and inconsistent with grant scopes and budgets.* Some progress reports lacked detail including tasks completed, milestones achieved, and problems encountered. When progress reports did list tasks completed, they did not always correspond to the reimbursement claims submitted for payment. For example, progress reports for SMM-0641 Trails Restoration and Resource Protection, for the period May 2006 through June 2009, indicated tasks and related costs totaling \$63,500; however, for that same time period, the reimbursement claims submitted to and paid by the Conservancy totaled \$278,842. Additionally, progress reports for the first quarter in 2008 indicated 100 percent completion of two projects, Las Virgenes and Bark Park trail repairs; however, these projects were not included in the grant scope or budget. Also, the project completion report did not list tasks completed—it simply restated the grant agreement's scope of work, which is a high-level summary.
- *Amendment requirements are not established or consistently followed.* For example, grant SMM-0836 was issued as an amendment to project SMM-05055 Pacoima Wash 8th Street Park, instead of augmenting the first grant. SMM-0478 KGR acquisition grant was amended to use excess funds returned from escrow for development and improvement projects, instead of issuing a separate grant to track related expenditures on the property. In addition, some amendments were executed several months after the grant term expired while the grantee continued to incur expenditures; SMM-0465 Amendment 2 was executed seven months after the term of first amendment had

expired. Also, SMM-0478 Amendments 3 and 4 were executed three months after the terms expired.

- *Matching funds are not documented.* The Conservancy does not demonstrate if or how it prioritizes projects with match contributions. Public Resources Code section 5096.650 (Proposition 40) states “priority shall be given to projects that include a commitment for a matching contribution.” Many of the projects reviewed did not require or list matching funds.
- *Reporting of other funding sources is not required.* As noted in Observation 3, the Conservancy does not consistently require the Authority to report other funding sources available to complete the project during grant application. This information is not included in the staff recommendation, scope of work, or the grant budget. For example, SMM-03176 Vista Hermosa Park Grant received funding from Los Angeles Unified School District, Los Angeles Proposition 1A Funds, and City of Los Angeles Community Development Block Grant. The Conservancy’s Bond Accountability Plan requires grantees to list all funding sources.
- *Post-project monitoring is not performed and reported as required in grant procedures.* Many grants require ongoing project maintenance by the grantee. However, post-close monitoring is not performed and documented to ensure long-term monitoring of bond funded properties. As a result, the Conservancy cannot ensure bond funded acquisition and development grants are properly maintained after project completion. See Observation 3.
- *Memorandum of Unrecorded Grant Agreement (MOUGA) not used.* MOUGAs are commonly used as a management tool to add protection against misuse or potential misuse of properties purchased with taxpayer funds. While grant agreements may include property protection provisions, several state departments require the recording of a MOUGA as additional protection. The MOUGA serves as constructive notice to all third parties of certain reserved rights contained in the grant.
- *Project status is inaccurate and incomplete.* A comparison of accounting records with reported project status indicated a difference of over \$15 million in project awards as of June 30, 2009. The Conservancy does not maintain a comprehensive database to track its awarded projects to ensure information posted on the Bond Accountability website is reliable. Additionally, project status on the website is not current. We noted instances where the projects status indicated an estimated completion date of June 30, 2009; however, as of April 6, 2011, the status indicated ongoing and on time without further clarification. It is our understanding the website reporting process is a joint effort between the Conservancy and the Resources Agency and that the Resources Agency is in the process of upgrading its information systems to ensure more efficient and accurate updates to the website.

According to the Conservancy’s staff counsel, the Conservancy relies on progress reports and regular site visits to monitor project status. However, as indicated above, progress reports are inconsistent and incomplete.

Executive Order S-02-07 requires departments to document ongoing actions necessary to ensure bond funded projects are staying within scope and cost. It also required all departments to submit a 3-Part Bond Accountability Plan (Plan) to document their accountability controls over bond funds.

The Conservancy complied with this directive and developed and submitted its Plan.² The Conservancy's Plan specifically requires grantees to list all project funding sources, submit quarterly status reports throughout the term of the agreement, submit supporting documentation for each expense, and at project completion, submit a report detailing description of work completed and financial information on the funds expended. Additionally, the Plan states that the Conservancy will review, audit, and approve payment requests for only eligible expenses pursuant to program guidelines and as contained in the approved project budget. The Plan also outlines extensive post-monitoring procedures to ensure the bond funded projects are maintained by the grantee as required by the grant agreements. Based on our review of projects noted above, the Plan is not consistently implemented as intended, contributing to a lack of project accountability.

Recommendations:

- A. Require all grant agreements to include detailed project scopes, tasks, and corresponding budgets.
- B. Require grantees to submit (1) reimbursement claims consistent with detailed project tasks and corresponding costs, and (2) progress reports with sufficient detail to determine which budgeted tasks were performed and the current status of the project.
- C. Develop and implement final project completion procedures and reports that include final site visit documentation, authorized signatures, and pre- and post- project photographs.
- D. Require grantees to disclose and report all project funding sources available, including matching contributions (if applicable).
- E. Require grantees to submit post-grant monitoring reports for acquisition and development projects as part of grant agreement, and periodic condition reports after project closure.
- F. Require the MOUGA as a standard condition to the grant agreement for acquisition projects.
- G. Ensure reconciliation of project status information to the Conservancy's accounting records to ensure all bond projects are accurately tracked and reported.

Observation 7: Real Property Is Not Accurately Recorded and Reported

The Conservancy's real property is inaccurately recorded and reported in its financial statements and the State Property Inventory (SPI). The Conservancy does not perform periodic reconciliations of its deed files, financial statements, and SPI. Moreover, according to the Conservancy, its deed files are not complete. The discrepancy between the Conservancy's current deed file records and the financial statements is significant as noted below.

| | Deed File | Financial Statements | SPI |
|-----------------------------|------------------|-----------------------------|---------------|
| Number of Properties | 121 | 23 | 69 |
| Value of Properties | \$232,466,255 | \$28,683,000 | \$181,796,973 |

² The Conservancy's 3-Part Bond Accountability Plan is at www.bondaccountability.ca.gov.

SAM section 1335.1, Statewide Property Inventory, requires state agencies that acquire, encumber, or dispose of real property to provide information to the Department of General Services for inclusion in the SPI.

SAM section 7924, Property Reconciliation, states that at least quarterly or monthly, depending on the volume of property transactions, agencies will reconcile the acquisitions and dispositions of capitalized property with the amounts recorded in the property ledger. In addition, agencies will annually reconcile these amounts to the SPI.

Government Code section 13402 specifies state agency heads are responsible for the establishment and maintenance of systems of internal accounting and administrative controls within their agencies. The elements of a satisfactory system of internal controls include, but are not limited to, a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures; and an effective system of internal review.

Recommendations:

- A. Perform a comprehensive inventory of state owned real property and provide the information to the Department of General Services for inclusion in the SPI. Maintain documentation of the inventory.
- B. Upon completion of the inventory, perform a reconciliation of records among the deed file, financial statements, and the SPI. Document any adjustments. Thereafter, perform periodic reconciliations as required.

Status of Prior Audit Findings

| 2006 Prior Audit Finding | Corrected | 2010 Current Status | Reference |
|--|------------------|---|--------------------|
| Lack of Operational Independence | Partial | Conservancy's and Authority's roles as grantor and grantee continue to compromise oversight of bond funds. | n/a |
| Some Grants Do Not Appear Consistent with Bond Acts | Partial | The Conservancy's grants are reviewed by the Attorney General (AG) for compliance with applicable bond acts. However we identified grants where the Conservancy did not follow AG's advice. | Observations 2 & 4 |
| Grant Contracting and Accounting Procedures Should be Improved | No | The Conservancy lacks adequate grant awarding and monitoring procedures to ensure proper accountability over bond funds. | Observation 6 |
| Grant Overhead Costs Appear Excessive | Partial | The Authority adopted a cost allocation methodology; however, the Conservancy has not defined allowable indirect costs for bond grants. | Observation 5 |
| Material Legal Costs and Loans | Yes | The Conservancy is no longer issuing grants for this purpose. | n/a |
| Improper Administrative Services Contract | Yes | The Conservancy discontinued awarding such contracts to the Authority. However, similar expenditures are paid either through overhead costs and/or revenues generated on properties. | Observations 3 & 5 |
| The Conservancy Continues to Advance Bond Funds to the Authority | Yes | The Conservancy discontinued advancing bond funds to the Authority without immediate cash need. | n/a |

APPENDIX B

List of Projects Reviewed at Santa Monica Mountains Conservancy

| | Grant Number | Project Title | Award Amount | Project Type |
|----|--------------|---|---------------------|--------------------------------|
| 1 | SMM-0463 | Vista Hermosa | \$11,519,700 | Development & restoration |
| 2 | SMM-0757 | Vegetation Management | \$ 2,150,000 | Development & restoration |
| 3 | SMM-0752 | Vista Hermosa Park | \$ 1,658,823 | Development & restoration |
| 4 | SMM-05054 | West Mulholland Trailhead | \$ 1,600,000 | PPD; development & restoration |
| 5 | SMM-0836 | Pacoima Wash - 8th Street Park | \$ 1,200,000 | Development & restoration |
| 6 | SMM-0464 | Project Planning and Design | \$ 1,070,000 | PPD |
| 7 | SMM-03176 | Vista Hermosa Augmentation | \$ 787,463 | Development & restoration |
| 8 | SMM-0754 | Project Planning and Design | \$ 750,000 | PPD |
| 9 | SMM-0478 | King Gillette Development | \$ 660,000 | Development & restoration |
| 10 | SMM-0607 | Project Planning and Design | \$ 550,000 | PPD |
| 11 | SMM-0760 | Temescal Park Preservation | \$ 550,000 | Development & restoration |
| 12 | SMM-0756 | Fuel Hazard Reduction | \$ 500,000 | Acquisition (capital asset) |
| 13 | SMM-05055 | Pacoima West 8th Street | \$ 500,000 | PPD; Development & restoration |
| 14 | SMM-0606 | Minor Capital Outlay | \$ 468,800 | Development & restoration |
| 15 | SMM-0605 | Franklin Improvements | \$ 450,000 | Development & restoration |
| 16 | SMM-0853 | Minor Capital Outlay | \$ 400,000 | Development & restoration |
| 17 | SMM-0741 | Pacoima Wash Greenway-1st Street Park | \$ 335,000 | PPD |
| 18 | SMM-0641 | Trails Restoration and Resource Protection | \$ 330,000 | Development & restoration |
| 19 | SMM-0729 | King Gillette Ranch Development | \$ 300,000 | Development & restoration |
| 20 | SMM-6116 | River Centers and Gardens Improvement Phase I | \$ 298,950 | Development & restoration |
| 21 | SMM-0465 | Soka Project Planning and Design | \$ 275,000 | PPD |
| 22 | SMM-0730 | King Gillette Ranch Interpretation Improvements | \$ 150,000 | Development & restoration |
| 23 | SMM-0747 | Non-Native Vegetation Removal | \$ 75,000 | Development & restoration |
| | | Total | \$26,578,736 | |

APPENDIX C

List of Santa Monica Mountains Conservancy Grant Audits Completed*

| | Grant Number | Grantee | Project Title | Award Amount | Project Type |
|---|--------------|--|-------------------------------|--------------------|---------------------------|
| 1 | NP-03185 | Tree People | Center For Community Forestry | \$1,000,000 | Development & restoration |
| 2 | NP-0615 | Rancho Simi Recreation and Park District | Tapo Canyon Property | \$ 975,000 | Acquisition (land) |
| 3 | NP-0631 | City of Thousand Oaks | Mount Clef Acquisition | \$ 500,000 | Acquisition (land) |
| | | | Total | \$2,475,000 | |

* All final grant audit reports are posted at http://www.dof.ca.gov/osae/prior_bond_audits/.

APPENDIX D

The table below shows SMM-0606 grant agreement budget tasks and amounts on the left, and the grantee expenditures claimed for the project on the right.

SMM-0606 Minor Capital Outlay Grant

| Budgeted vs. Claimed Expenditures | | | |
|-----------------------------------|------------------|---|------------------|
| Grant Budget Tasks | Amount | Claimed Expenditures | Amount |
| LA River Corridor | \$ 23,000 | Salaries and Benefits | \$ 151,201 |
| East Canyon Park | \$ 41,000 | Sub Contractors | \$ 125,898 |
| Marvin Braude Park | \$ 16,000 | Overhead | \$ 63,927 |
| San Vicente Mountain Park | \$ 41,400 | Vehicle Usage | \$ 48,559 |
| Barbara Fine Overlook | \$ 5,000 | Materials | \$ 35,648 |
| Red Rock Canyon Park | \$ 45,500 | Equipment | \$ 9,914 |
| Wilacre Park | \$ 28,000 | Signs & Info Fixtures | \$ 6,631 |
| Stone Canyon Overlook | \$ 7,000 | Minor Equipment | \$ 5,975 |
| Bosque del Rio Hondo | \$ 22,500 | Design/Pre Construction | \$ 2,128 |
| Mentryville | \$ 30,000 | Building Improvements | \$ 605 |
| Elyria Canyon Park | \$ 33,000 | | |
| Hollywood Bowl Overlook | \$ 14,300 | | |
| Nancy Pohl Overlook | \$ 15,400 | | |
| Mulholland Scenic Overlooks | \$ 11,500 | | |
| Getty View Trailhead | \$ 4,350 | | |
| Top o'Topanga | \$ 9,250 | | |
| Las Virgines View Trailhead | \$ 6,000 | | |
| Seminole Overlook | \$ 10,400 | | |
| Joughin Ranch | \$ 43,500 | | |
| Liberty Canyon | \$ 11,000 | | |
| Browns Canyon | \$ 1,850 | | |
| Las Virgines Canyon | \$ 8,000 | | |
| Happy Camp | \$ 16,500 | | |
| Rocky Peak | \$ 4,300 | | |
| La Tuna Canyon | \$ 7,000 | | |
| Katz Overlook | \$ 4,000 | | |
| Garden of the Gods | \$ 4,050 | | |
| Trail Signage | \$ 5,000 | | |
| Total | \$468,800 | Total Expenditures as of December 31, 2008 | \$450,486 |

CRITERIA**Determining Eligibility of Maintenance Costs**

Government Code section 16727 establishes the general rule limiting the use of bond proceeds to pay for the costs of constructing or acquiring capital assets. Government Code section 16727, subdivision (a), defines “capital assets” as follows:

- Tangible physical property with an expected useful life of 15 years or more.
- Tangible physical property with an expected useful life of 10 to 15 years, but these costs may not exceed 10 percent of the bond proceeds net of all issuance costs.
- Major maintenance, reconstruction, demolition for purposes of *reconstruction of facilities*, and *retrofitting* work that is ordinarily done no more often than once every 5 to 15 years or expenditures that *continue or enhance the useful life* of the capital asset.
- Equipment with an expected useful life of two years or more.

Costs allowable under this section include costs incidentally but directly related to construction or acquisition, including, but not limited to, planning, engineering, construction management, architectural, and other design work, environmental impact reports and assessments, required mitigation expenses, appraisals, legal expenses, site acquisitions, and necessary easements.

Department of Finance Budget Letter dated May 6, 2009 on Build America Bonds (BABs) states “In addition to standard IRS rules for tax-exempt bonds, BABs may only be used for capital expenditures and may not be used for administrative or other non-capital expenditures. Capital costs do not include operating expenses of the project or incidental or routine repair or maintenance of the project/grant, even if the repair or maintenance will have a useful life longer than one year.

State Administrative Manual (SAM) section 6806 defines capital outlay versus state operations and local assistance costs.

- Capital outlay is defined as “acquisition of land or other real property, major construction, improvements, equipment, designs, working plans, specifications, repairs, and equipment necessary in connection with a construction or improvement project.” This does not include repairs and maintenance, which are intended to keep a facility functional at its *designed* level of services and life expectancy.
- State operations are defined to include repair projects, such as special repairs, not connected with a construction or improvement project. Examples of special repair projects include repainting, re-roofing, electrical rewiring, plumbing repairs, dredging of river or stream beds to restore original flow capacity, replacing old equipment items, and road repairs.

Generally Accepted Accounting Principles

Maintenance: The act of keeping fixed assets in useable condition. It includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended.

SMM-0464 Scope of Work



MOUNTAINS RECREATION & CONSERVATION AUTHORITY
Los Angeles River Center and Gardens
570 West Avenue Twenty-six, Suite 100
Los Angeles, California 90065
Phone (323) 221-9944 Fax (323) 221-9934

PROPOSITION 50 - PROJECT PLANNING AND DESIGN POTENTIAL PROJECTS LIST

Revised 2/17/06

TASK 1

UPPER LOS ANGELES RIVER WATERSHED

- a. Incorporation of LACO Flood Control right-of-way (as incrementally approved by LACO) into greenbelt and acquisition and restoration of creek adjacent, or near adjacent, parcels for the following sections of the Los Angeles River:
 - Los Angeles River from Bell and Calabasas Creek confluence to Tujunga Wash confluence
 - Los Angeles River from Verdugo Wash to northernmost point of Vernon
- b. Pacoima Wash: Acquisition and restoration of wash adjacent properties in the City of San Fernando and portions upstream to the Angeles National Forest
- c. Hansen Dam Basin: Restoration of habitat in the basin
- d. Incorporation of LACO Flood Control right-of-way (as incrementally approved by LACO) into greenbelt and acquisition and restoration of creek adjacent parcels, or near-adjacent, for the following tributaries of the Los Angeles River:
 - Bell Creek between Valley Circle Boulevard and Shoup Avenue
 - South Bell Creek between Royer and Fallbrook Avenues
 - Aliso Creek, Chatsworth Creek, Santa Susana Creek, Limekiln Creek, Calabasas Creek, and Browns Canyon Wash-south of the 118 Freeway and north of Roscoe Boulevard
- e. Acquire and restore open space in the following tributary watersheds of the Los Angeles River between the Angeles National Forest and the 240 Freeway-Verdugo Mountains:
 - Grapevine Canyon – complete dedication and donations in progress
 - Lopez Canyon, Kagel Canyon, Little Tujunga Canyon – process and negotiate open space acquisitions, dedications, and donations in the area between the built environment and the Angeles National Forest
 - Big Tujunga Canyon – acquire City of Los Angeles and Department of Water and Power surplus property and City of Los Angeles entitlement dedications between the 210 Freeway and the Angeles National Forest
 - Millard Canyon – acquire parcels between the Angeles National Forest and Canyon Crest Road
 - Accept donations and dedications in the eastern Verdugo Mountains both north and south of the Verdugo Mountain Open Space in the City of Glendale

- f. Acquire and restore open space in the following tributary watershed of the Los Angeles River between the Sepulveda Basin and the Simi Hills:
 - El Escorpián Canyon – between Upper Las Virgenes Canyon Open Space Preserve and Valley Circle Boulevard
- g. Implement Sun Valley Watershed restoration and enhancement projects (as defined in the October 2003 Sun Valley Watershed Management Plan)
- h. ~~Mount Olympus – Acquire fee simple and conservation easement open space in the Montecito and Lincoln Heights~~
Monterey Hills – Acquire and restore fee simple and conservation easement open space in the City of Los Angeles south of the 110 Freeway, and near-adjacent to Debs Park and other publicly-owned parcels.
- i. Mount Washington: Acquire and restore open space lots and conservation easements that preserve prominent viewsheds and maintain wildlife movement between Elyria Canyon Park and Heidelberg Park
- j. Walnut Canyon (Cazador Ridge): Acquire and restore open space lots close to public access points
- k. San Rafael Hills: Acquire and restore open space in the cities of Pasadena, Glendale and La Cañada-Flintridge at the east end of the San Rafael Hills north of the 134 Freeway.
- l. Sheldon Arleta Spreading Grounds: Acquire property from the L.A. City Department of Water and Power and restore native habitat and stormwater management enhancements
- m. La Tuna Canyon: Acquire and restore open space up stream of Sunland Boulevard including the Canyon Hills-Whitebird and Hillview properties abutting the 210 Freeway, and the Majors property at the eastern end of the Verdugo Mountains
- n. Dixie Canyon Park: Stream restoration to facilitate TMDL compliance
- o. Elysian Valley-Marsh Street Park: Stormwater management enhancements on existing MRCA property
- p. Hazard Park: Acquisition and restoration of open space on City of Los Angeles property and creation of habitat connection northward to the Monterey Hills and Lincoln Park
- q. Ascot Hills: Acquisition and restoration of open space on City of Los Angeles property and creation of habitat connection westward to the Monterey Hills

Exhibit A – PP&D Prop 50

Revised 2/17/06

3

r. Arroyo Seco –

- Acquire and restore open space adjacent or near-adjacent to the Angeles National Forest, Hahamongna Watershed Park, or downstream stretches of the Arroyo Seco
- Stream restoration of the North Branch and stormwater management enhancements

s. Boyle Heights –

- Stormwater management enhancements on City of Los Angeles right-of-way, the former Sears property, and the Santa Fe Ave property between 4th and 6th
- Acquire and restore open space to create habitat connectivity and stormwater management enhancements between the Los Angeles River, City of Los Angeles parks, and schools

t. Tujunga Wash – extension of wash-adjacent restoration project and stormwater management enhancements north of Vanowen and south of Oxnard

TASK 2

COASTAL WATERSHEDS OF THE SANTA MONICA BAY & VENTURA COUNTY

Land Acquisition, trail construction and restoration in the following coastal canyon watersheds within the Santa Monica Mountains zone:

- a. Topanga
 - Acquire surplus Los Angeles County property in the Sylvia Park and Hillside Drive area
 - Acquire property in the Kerry Lane Area
 - Acquire property between Mulholland Gateway Park and Garapito Creek stream channel east of Ed Edelman Summit Valley Park
- b. Tuna
 - Acquire property in ~~SEA 10 that abuts the northern boundary~~ around the perimeter of Tuna Canyon Park
- c. Las Flores
 - Acquire property to maintain a coastal slope wildlife corridor and the Coastal Slope Trail between Tuna and Las Flores Canyons
- d. Malibu
 - Acquire property in the upper Stokes Canyon tributary, upper Cold Creek/Dark Canyon tributaries and upper La Sierra Canyon tributary, and dedications along Mulholland Highway in the Cold Creek tributary
- e. Puerco
 - Acquire dedications ~~from City of Malibu development projects~~ for the Coastal Slope Trail and additions to Corral Canyon Park
- f. Corral
 - Acquire property to connect Corral Canyon Park with Malibu Creek State Park and for the Coastal Slope Trail
- g. Solstice
 - Acquire property to connect Solstice Canyon Park with Malibu Creek State Park
- h. Latigo, Escondido, and Ramirez Canyons
 - Acquire property to maintain a coastal slope, east-west wildlife corridor and the Coastal Slope Trail between Solstice Canyon Park and the Zuma Canyon unit of the Santa Monica Mountains National Recreation Area

Exhibit A – PP&D Prop 50

Revised 2/17/06

5

- i. Encinal
 - Acquire pending donations and Offers to Dedicate
- j. Lechuza
 - Acquire donations and Offers to Dedicate
- k. Los Alisos
 - Acquire donations and Offers to Dedicate
- l. Nicholas
 - Acquire donations and Offers to Dedicate
- m. Arroyo Sequit
 - Acquire donations and Offers to Dedicate
- n. Calleguas Creek
 - Acquire conservation easements and donations in agricultural lands along Calleguas Creek at the eastern end of the Santa Monica Mountains to the Point Mugu Naval Air Station

SMM-0607 Scope of Work



MOUNTAINS RECREATION & CONSERVATION AUTHORITY
 Los Angeles River Center and Gardens
 570 West Avenue Twenty-six, Suite 100
 Los Angeles, California 90065
 Phone (323) 221-9944 Fax (323) 221-9934

EXHIBIT A PROJECT PLANNING AND DESIGN – PROPOSITION 40 1/17/05

PROJECT BUDGET

Task 1 –

| | |
|---|-------------------|
| Personnel (including benefits and overhead) | \$ 280,000 |
| Legal | \$ 50,000 |
| Appraisals and Title Reports | \$ 50,000 |
| Environmental Assessments | \$ 10,000 |
| Mapping/Graphics | \$ 10,000 |
| Task 1 Total | \$ 400,000 |

POTENTIAL PROJECTS

1. Land acquisition, trail construction and habitat restoration in the following coastal canyon watersheds within the Santa Monica Mountains:

- a. Accept donations along the Mulholland Scenic Parkway
- b. Laurel - Acquire donations
- c. Benedict - Acquire donations
- d. Beverly Glen - Acquire donations
- e. Coldwater Canyon - Acquire donations
- f. Peavine - Acquire donations
- g. Mandeville - Acquire donations
- h. Topanga - Acquire surplus Los Angeles County property in the Sylvia Park and Hillside Drive area; Acquire property in the Kerry Lane Area; Acquire property between Mulholland Gateway Park and Garapito Creek stream channel east and north of Ed Edelman - Summit Valley Park; Acquire donations and tax defaulted parcels from Los Angeles County watershed-wide
- i. Tuna - Acquire property around the perimeter of Tuna Canyon Park
- j. Las Flores - Acquire property to maintain a coastal slope wildlife corridor and the Coastal Slope Trail between Tuna and Las Flores Canyons
- k. Malibu - Acquire property in the Stokes Canyon tributary, Piuma Ridge, upper Cold Creek/Dark Canyon tributaries and upper La Sierra Canyon tributary, and dedications along Mulholland Highway in the Cold Creek tributary
- l. Puerco - Acquire dedications for the Coastal Slope Trail and additions to Corral Canyon Park
- m. Corral - Acquire property to connect Corral Canyon Park with Malibu Creek State Park and for the Coastal Slope Trail

A public entity of the State of California exercising joint powers of the Santa Monica Mountains Conservancy, the Conejo Recreation and Park District, and the Rancho Simi Recreation and Park District pursuant to Section 6500 et seq. of the Government Code

- n. Solstice - Acquire property to connect Solstice Canyon Park with Malibu Creek State Park
- o. Latigo, Escondido, and Ramirez Canyons- Acquire property to maintain a coastal slope, east-west wildlife corridor and Coastal Slope Trail between Solstice Canyon Park and the Zuma Canyon unit of the Santa Monica Mountains National Recreation Area
- p. Encinal - Acquire pending dedication, donations and Offers to Dedicate
- q. Lechuza - Acquire donations and Offers to Dedicate
- r. Los Alisos - Acquire donations and Offers to Dedicate
- s. Nicholas - Acquire donations and Offers to Dedicate
- t. Arroyo Sequit - Acquire donations and Offers to Dedicate
- u. Calleguas Creek - Acquire conservation easements and donations, particularly conservation easements, in agricultural lands along Calleguas Creek at the eastern end of the Santa Monica Mountains to the Point Mugo Naval Air Station
- v. Franklin Canyon – Acquire donations and Offers to Dedicate, restoration of open space
- w. Backbone Trail – Acquire donations and Offers to Dedicate, restoration of open space

2. Land acquisition and restoration in the following inland canyon watersheds within the Santa Monica Mountains:

- a. Carlisle Canyon - Acquire donations in central and upper canyon focusing on protecting riparian habitat
- b. Triunfo Canyon - Acquire pending dedications and donations
- c. Lobo Canyon - Acquire donations
- d. Medea Canyon - Acquire donations
- e. Las Virgenes Canyon - Acquire donations and dedications
- f. Liberty Canyon - Acquire pending dedications and donations
- g. Natoma, Ventura and Fryman Canyons - Acquire donations
- h. Backbone Trail – Acquire donations and Offers to Dedicate, restoration of open space
- i. Dixie Canyon Park – Stream restoration

3. Land acquisition and restoration in the following canyons and sub-areas of the Simi Hills:

- a. Crummer Canyon - acquire dedications east of MRCA Crummer Canyon easement
- b. El Escorpián Canyon - Acquire donations between Upper Las Virgenes Canyon Open Space Preserve and Valley Circle Boulevard
- c. Bell Canyon - Acquire donations
- d. Dayton Canyon - Accept pending dedication and acquire donations from Valley Circle Blvd. westward
- e. Woolsey Canyon - Accept dedications and acquire donations between Chatsworth Reservoir and Sage Ranch

- f. Box Canyon - Accept donations and acquire in lieu mitigation fee properties along Box Creek
- g. Santa Susana Pass State Historic Park - Accept donations around, and coordinate acquisitions with other entities to add to State Park holdings
- h. Chatsworth Peak (north slope) - Accept donations and coordinate acquisitions with other entities such as Rancho Simi Park and Recreation District
- i. Arroyo Simi - Acquire in lieu fee riparian mitigation properties in eligible portions of the Arroyo Simi
- j. Black Canyon - Accept donations north of Sage Ranch and acquire in lieu fee riparian mitigation properties
- k. Runkle Canyon - Accept pending dedication
- l. Palo Comado Canyon - Accept donations and dedications from the City of Agoura Hills
- m. El Escorpan Canyon – Acquire and restore open space between Upper Las Virgenes Canyon Open Space Preserve and Valley Circle Boulevard

4. Land acquisition and restoration in the following canyons and sub-areas of the Montclef Ridge, Tierra Rejada and Santa Rosa Valleys:

- a. Acquire dedications and donations in the designated greenbelt and inter-mountain range wildlife corridor area bounded by the Arroyo Simi, Olsen Road, the 23 Freeway and Madera Road
- b. Acquire dedications and donations and acquire in lieu fee riparian mitigation properties to maintain the wildlife corridor between the Wildwood Park and the area bounded by Olsen Road, Moorpark Road, the 23 Freeway and Tierra Rejada Road
- c. Acquire dedications and donations and acquire in lieu fee riparian mitigation properties in the Las Posas Hills and Santa Rosa Valley in the area bounded by Moorpark Road, the Arroyo Simi, and Santa Rosa Road
- d. Acquire fee simple and easement interests, and dedications and donations in the Montclef Ridge Wildlife Corridor between the Joel McCrea Wildlife Preserve and Wildwood Park and the Arroyo Conejo

5. Land acquisition and restoration in the following canyons and sub-areas of the Santa Susana Mountains:

- a. Arroyo Simi tributaries between Happy Camp and Alamos Canyons - accept dedications
- b. Alamos - accept dedications and donations
- c. Tapo - accept dedications and donations
- d. Chivo and Las Lajas Canyons - accept donations from small lot subdivisions
- e. Devil - accept dedications and donations throughout watershed
- f. Browns - accept dedications and donations throughout watershed
- g. Bee - accept pending dedications
- h. Newhall Pass - accept donations and dedications west of Interstate 5 and between State Route 14 and Interstate 5

- i. East - acquire properties along Old Road and accept donation of inholdings in upper watershed
- j. Towsley - accept donations in canyon upstream from Santa Clarita Woodlands Park
- k. Lyons - accept donations and future dedications throughout watershed
- l. Pico - accept donations and future dedications throughout watershed both upstream and downstream of Mentryville

6. Land acquisition and restoration in the following canyons and sub-areas of the Santa Clara River:

- a. San Martinez Grande - Acquire tax defaulted and in lieu fee riparian mitigation properties and donations
- b. Lower Castaic Creek - Acquire in lieu fee riparian mitigation properties, tax defaulted properties and dedications from the northern limit of the Castaic Recreation Area to the Santa Clara River
- c. San Francisquito Creek - Acquire in lieu fee riparian mitigation properties and dedications
- d. Soledad Canyon - Acquire in lieu fee riparian mitigation properties, tax defaulted properties, dedications and donations
- e. Grasshopper - Acquire future dedications
- f. Halsey Canyon - Acquire in lieu fee riparian mitigation properties, tax defaulted properties, donations and dedications between the built environment and the divide of the Piru Creek watershed

7. Land acquisition and restoration in the following canyons and sub-areas of the San Gabriel Mountains:

- a. Elsmere Canyon - process and negotiate open space dedications and donations in the area between State Route 14 and the Angeles National Forest
- b. Placerita Canyon - process and negotiate open space dedications and donations in the area between the Golden Valley Ranch dedication and the Angeles National Forest
- c. Grapevine Canyon - complete dedication and donations in process and accept future dedications and donations
- d. Lopez Canyon, Kagel Canyon, Little Tujunga Canyon - process and negotiate open space acquisitions, dedications, and donations in the area between the built environment and the Angeles National Forest
- e. Big Tujunga Canyon- acquire City of Los Angeles and Department of Water and Power surplus property and City of Los Angeles entitlement dedications between the 210 Freeway and the Angeles National Forest
- f. Millard Canyon - acquire parcels between the Angeles National Forest and Canyon Crest Road
- g. Angeles Forest Adjacent - Acquire tax defaulted properties and accept dedications and donations of properties adjacent to, or near-adjacent to, the Angeles National Forest between Haines Canyon and Sierra Madre

- h. Soledad Canyon - Acquire fee simple, easements, donations and dedications in the habitat block-linkage between State Route 14 and Soledad Canyon Road

8. Land acquisition and restoration in the following canyons and sub-areas of the Sierra Pelona Range:

- a. Acquire tax defaulted properties and accept dedications and donations of properties adjacent to, or near-adjacent to, the Angeles National Forest, the MRCA's Ritter Ranch Open Space, the Pacific Crest Trail, and other public open space lands in area between the crest of the Sierra Pelona Mountains and State Route 14.

9. Land acquisition and restoration in the following sub-areas of the Antelope Valley:

- a. Acquire tax defaulted properties and accept dedications and donations of properties adjacent to, or near-adjacent to, the Angeles National Forest, other public open space lands, or in Significant Ecological Areas between Hwy. 138 and the Angeles National Forest and east of State Route 14
- b. Acquire tax defaulted properties and accept dedications and donations of properties adjacent to, or near-adjacent to, the Angeles National Forest, the MRCA's Ritter Ranch Open Space, other public open space lands, or in Significant Ecological Areas between the crest of the Sierra Pelona Mountains and the California Aqueduct and west of State Route 14
- c. Acquire tax defaulted properties and accept dedications and donations of properties adjacent to, or near-adjacent to, the Angeles National Forest, the other public open space lands, or in Significant Ecological Areas between the crest of the Liebre-Sawmill Mountains and the California Aqueduct and west of State Route 14
- d. Acquire tax defaulted properties and accept dedications and donations of properties adjacent to, or near-adjacent to, State-owned natural areas in the Antelope Valley

10. Land acquisition and restoration in the Verdugo Mountains

- a. La Tuna Canyon - Acquire and restore open space up stream of Sunland Boulevard including the Canyon Hills-Whitebird and Hillview-Duke properties abutting the 210 Freeway, and the Majors property at the eastern end of the Verdugo Mountains
- b. Accept donations and dedications in the eastern Verdugo Mountains both south and north of the Santa Monica Mountains Conservancy's Verdugo Mountain Open Space in the City of Glendale

11. Land acquisition and restoration in the canyons and sub-areas of the Arroyo Seco

- a. San Rafael Hills - Acquire and restore open space in the Cities of Pasadena, Glendale and La Canada-Flintridge at east end San Rafael Hills north of the 134 Freeway
- b. Monterey Hills – Acquire and restore fee simple and conservation easement open space in the City of Los Angeles south of the 110 Freeway, and near-adjacent to Debs Park and other publicly owned parks
- c. Mount Washington – Acquire and restore open space lots that preserve prominent viewsheds and maintain wildlife movement between Elyria Canyon Park and Heidelberg Park
- d. Arroyo Seco – Acquire and restore open space adjacent or near-adjacent to the Angeles National Forest, Hahamongna Watershed Park, or downstream stretches of the Arroyo Seco
- e. Walnut Canyon (Cazador Ridge) – Acquire and restore open space lots close to public access points
- f. Ascot Hills – Acquisition and restoration of open space on City of Los Angeles property

12. Land acquisition and restoration in the canyons and sub-areas of Tujunga Wash

- a. Pacoima Wash – Acquisition and restoration of wash adjacent properties in the City of San Fernando and portions upstream to the Angeles National Forest
- b. Hansen Dam Basin – Restoration of habitat in the basin
- c. Sun Valley – Restoration and enhancement projects defined in the October 2003 Sun Valley Watershed Management Plan

13. Land acquisition and restoration of creek adjacent, or near-adjacent, parcels in the following tributaries of the Los Angeles River:

- a. Bell Creek between Valley Circle Boulevard and Shoup Avenue
- b. South Bell Creek between Royer and Fallbrook Avenues
- c. Aliso Creek, Chatsworth Creek, Santa Susana Creek, Limekiln Creek, and Browns Canyon Wash-south of the 118 Freeway and north of Roscoe Boulevard
- d. Calabasas Creek

SMM-0754 Scope of Work



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PROPOSITION 84 - PROJECT PLANNING AND DESIGN

POTENTIAL PROJECT AREA LIST

TASK 1 – UPPER LOS ANGELES RIVER WATERSHED

A. Los Angeles River Watershed, upstream of the Tujunga Wash/Los Angeles River confluence

Incorporation of LACO Flood Control and Army Corps of Engineers right-of-way (as incrementally approved by LACO and ACOE) into greenbelt and acquisition and restoration of creek adjacent, or near adjacent, parcels from Bell and Calabasas Creek confluence to Tujunga Wash confluence

Pacoima Wash: Acquisition and restoration of wash adjacent properties in the City of San Fernando and the City of Los Angeles to the Angeles National Forest.

Hansen Dam Basin: Restoration of habitat in the basin

Incorporation of LACO Flood Control right-of-way (as incrementally approved by LACO) into greenbelt and acquisition and restoration of creek adjacent parcels, or near-adjacent, for the following tributaries of the Los Angeles River:

- Bell Creek between Valley Circle Boulevard and Shoup Avenue
- South Bell Creek between Royer and Fallbrook Avenues
- Aliso Creek, Chatsworth Creek, Santa Susana Creek, Limekiln Creek, Calabasas Creek, and Browns Canyon Wash-south of the 118 Freeway and north of Roscoe Boulevard

Bull Creek and Woolsey Creek: Acquisition and restoration of creek adjacent properties along the creeks.

Acquire and restore open space in the following tributary watershed of the Los Angeles River between the Sepulveda Basin and the Simi Hills:

- El Escorpián Canyon – between Upper Las Virgenes Canyon Open Space Preserve and Valley Circle Boulevard

Open space and watershed acquisitions in the Limekiln and Aliso Creek drainages.

Tujunga Wash: extension of wash-adjacent restoration project and stormwater management enhancements north of Vanowen and south of Oxnard

Natoma, Ventura and Fryman Canyons - Acquire donations and dedications.

A public entity of the State of California exercising joint powers of the Santa Monica Mountains Conservancy, the Conejo Recreation and Park District, and the Rancho Simi Recreation and Park District pursuant to Section 6500 et seq. of the Government Code

B. Land acquisition and restoration in the following canyons and sub-areas of the Simi Hills:

Dayton Canyon -

Woolsey Canyon - Accept dedications and acquire donations between Chatsworth Reservoir and Sage Ranch

Box Canyon - Pursuing interests in all parcels between Box Canyon and Lilac/Thompson Lanes for connection to State Historic Park

Santa Susana Pass State Historic Park - Accept donations around, and coordinate acquisitions with other entities to add to State Park holdings

Chatsworth Peak (south slope) Accept donations and coordinate acquisitions with other entities such as Rancho Simi Park and Recreation District

Devil - accept dedications and donations throughout watershed
Analyzing numerous potential in lieu fee acquisition parcels.

Browns - accept dedications and donations throughout watershed

C. Los Angeles River Watershed, between the Tujunga Wash/Los Angeles River confluence and the Verdugo Wash/Los Angeles River confluence

Incorporation of LACO Flood Control and Army Corps of Engineers right-of-way (as incrementally approved by LACO and ACOE) into greenbelt and acquisition and restoration of creek adjacent, or near adjacent, parcels from Tujunga Wash confluence to Verdugo Wash confluence

Acquire and restore open space in the following tributary watersheds of the Los Angeles River interests:

- Newhall Pass - accept donations and dedications west of Interstate 5
- Newhall Pass - accept donations and dedications between Interstate 5 State Route 14
- Grapevine Canyon – secure dedications, donations, and acquire easements
- Bee Canyon- accept dedication, donations in progress, and secure additional easements

- Lopez Canyon, Kagel Canyon, Little Tujunga Canyon – process and negotiate open space acquisitions, dedications, and donations in the area between the built environment and the Angeles National Forest
- Big Tujunga Canyon – acquire private, City of Los Angeles and Department of Water and Power surplus property and City of Los Angeles entitlement dedications between the 210 Freeway and the Angeles National Forest
- Millard Canyon – acquire parcels between the Angeles National Forest and Canyon Crest Road
- Accept donation, dedications, and acquire in the eastern Verdugo Mountains both north and south of the Verdugo Mountain Open Space in the City of Glendale
- Woodland Hills- Secure interest in Girard Reservoir property, open space along SR 27, Mulholland High, dirt and paved Mulholland Drive, Caltrans Property, and Valley Circle.
- Accept donations and dedications in the eastern Verdugo Mountains both south and north of the Santa Monica Mountains Conservancy's Verdugo Mountain Open Space in the City of Glendale

La Tuna Canyon: Acquire and restore open space up stream of Sunland Boulevard including the Canyon Hills-Whitebird, Bagdesarian, and Hillview properties abutting the 210 Freeway, and the Majors property at the eastern end of the Verdugo Mountains

D. Los Angeles River Watershed, between the Verdugo Wash/Los Angeles River confluence and the Arroyo Seco/Los Angeles River Confluence, Excluding the Arroyo Seco Watershed

Incorporation of LACO Flood Control and Army Corps of Engineers right-of-way (as incrementally approved by LACO and ACOE) into greenbelt and acquisition and restoration of creek adjacent, or near adjacent, parcels along the main stem of the Los Angeles River

Elysian Valley: Stormwater management enhancements on existing MRCA property at Marsh Street Park.

Acquisition and development for open space for park use at the Semi Tropic Spiritualists' Tract at 2400 Alessandro Street, Los Angeles.

Hazard Park: Acquisition and restoration of open space on City of Los Angeles property and creation of habitat connection northward to the Monterey Hills and Lincoln Park

Taylor Yard River Park- (Parcel-G2): Acquire and restore open space on the G-2 parcel adjacent to the Los Angeles River to establish riparian and associated habitats, enhance wildlife connectivity and movement along the river corridor, and improve the quality of stormwater runoff.

E. Los Angeles River Watershed, between the Arroyo Seco/Los Angeles River Confluence and Vernon Avenue, Excluding the Arroyo Seco Watershed

Acquisition and restoration of open spaces for an Urban Natural Habitat parks with stormwater quality improvements:

- Downtown Area (located within 1/3 of a mile of the Los Angeles River between the 101 Freeway Bridge and the 10 Freeway Bridge)
- El Pueblo Area (located within 1/3 of a mile of the Los Angeles River between the Arroyo Seco Confluence and the 101 Freeway Bridge)
 - Albion Dairy park acquisition and development on river adjacent parcel
- South Los Angeles Area (located within 1/3 of a mile of the Los Angeles River between the 10 Freeway Bridge and Vernon Avenue)
 - Stormwater management enhancements on City of Los Angeles right-of-way, the former Sears property, and the Santa Fe Ave property between 4th and 6th
- Boyle Heights/City Heights Area (located within an area 2 miles south of the 10 Freeway and 2 miles west of the 710 Freeway)
- Lincoln Park Area (located within an area 2 miles north of the 10 Freeway and 2 miles east of the 5 Freeway)
- Vista Hermosa Area (located within an area within the Upper Los Angeles River Watershed, south of Elysian Park, and within 2 miles west of the 110 Freeway)
 - Development of the Vista Hermosa Park (currently under construction)

F. Arroyo Seco watershed

San Rafael Hills: Acquire and restore open space in the cities of Pasadena, Glendale and La Cañada-Flintridge at the east end of the San Rafael Hills north of the 134 Freeway

PP&D Prop 84
6/29/07
5

Acquire and restore open space adjacent, or near adjacent to, the Angeles National Forest, Hahamonga Watershed Park, or downstream stretches of the Arroyo Seco to the Los Angeles River confluence

Stream restoration of the North Branch and stormwater management enhancements

South Pasadena: development of the Arroyo Seco Greenway project incorporating the Arroyo Seco Golf Course and the South Pasadena woodlands preservation project.

G. Northeast Los Angeles Hill Systems

Monterey Hills/Mt Olympus: Acquire and restore fee simple and conservation easement open space in the City of Los Angeles south of the 110 Freeway, and near-adjacent to Debs Park and other publicly-owned parcels including Montecito Heights.

Mount Washington: Acquire and restore open space lots and conservation easements that preserve prominent viewsheds and maintain wildlife movement between Elyria Canyon Park and Heidelberg Park

Paradise Hill: Acquire and restore open space lots and conservation easements that preserve prominent viewsheds, trail locations, watershed area and wildlife habitat.

Elephant Hill: Acquire and restore open space lots and conservation easements that preserve prominent viewsheds, trail locations, watershed area and wildlife habitat within cities of Los Angeles and South Pasadena

Ascot Hills: Acquisition, development, and restoration of open space on City of Los Angeles property and creation of habitat connection westward to the Monterey Hills

Walnut Canyon (Cazador Ridge): Acquire and restore open space lots including tax defaulted parcels to maximize habitat and views

H. San Rafael Hills

Acquire and restore open space in the Cities of Pasadena, Glendale and La Canada-Flintridge at east end San Rafael Hills north of the 134 Freeway

I. Foothills of the San Gabriel Mountains proximate to the Angeles National Forest.

- Acquire land and easements in Pickens Ridge Area- including Pickens and Goss Canyon.
- Verdugo Hills Golf Course: Acquire and restore open space
- Acquire interest in Alzada Canyon in Altadena

PP&D Prop 84
6/29/07
6

San Gabriel Mountain Foothills: Acquisitions of easements and fee simple ownership along the foothills of the San Gabriel Mountains north of the 118 and 210 Freeways in Sombrero, Schoolhouse, Limekiln, Lopez, Loop Kagel, Little Tujunga, Big Tujunga, Haines Canyon Watersheds.

J. Big Tujunga and Millard Canyon

Big Tujunga Canyon- acquire City of Los Angeles and Department of Water and Power surplus property and City of Los Angeles entitlement dedications between the 210 Freeway and the Angeles National Forest

Millard Canyon - acquire parcels between the Angeles National Forest and Canyon Crest Road

K. Los Angeles County Integrated Regional Water Management Plan

Acquisition, development, and implementation of Proposition 84 eligible projects from the Los Angeles County Integrated Regional Water Management Plan Project List.

L. Los Angeles River Revitalization Master Plan

Acquisition, development, and implementation of Proposition 84 eligible projects from the Los Angeles River Revitalization Master Plan



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PROPOSITION 84 - PROJECT PLANNING AND DESIGN

POTENTIAL PROJECT AREA LIST

TASK 2 – COASTAL WATERSHEDS OF THE SANTA MONICA BAY

Land acquisition, trail construction and restoration in the following coastal canyon watersheds within the Santa Monica Mountains zone:

a. Topanga

Acquire surplus Los Angeles County property in the Sylvia Park and Hillside Drive area

Acquire property in the Kerry Lane Area

Acquire property between Mulholland Gateway Park and Garapito Creek stream channel east of Ed Edelman Summit Valley Park

Acquire tax defaulted property throughout watershed

b. Tuna

Acquire property around the perimeter of Tuna Canyon Park and connecting to Las Flores Canyon

c. Las Flores

Acquire property to maintain a coastal slope wildlife corridor and the Coastal Slope Trail between Tuna and Las Flores Canyons

d. Backbone Trail: Acquire donations and Offers to Dedicate.

e. Malibu

Acquire property in the upper Stokes Canyon tributary, upper Cold Creek/Dark Canyon tributaries and upper La Sierra Canyon tributary, and dedications along Mulholland Highway in the Cold Creek tributary

f. Puerco

Acquire dedications for the Coastal Slope Trail and additions to Corral Canyon Park

g. Corral

Acquire property to connect Corral Canyon Park with Malibu Creek State Park and for the Coastal Slope Trail

h. Solstice, Latigo, Escondido, and Ramirez Canyons

Acquire property to maintain a coastal slope, east-west wildlife corridor and the Coastal Slope Trail between Solstice Canyon Park and the Zuma Canyon unit of the Santa Monica Mountains National Recreation Area. Acquire property to connect Solstice Canyon Park with Malibu Creek State Park

A public entity of the State of California exercising joint powers of the Santa Monica Mountains Conservancy, the Conejo Recreation and Park District, and the Rancho Simi Recreation and Park District pursuant to Section 6500 et seq. of the Government Code

i. Encinal

Acquire pending donations and offers to dedicate and tax defaulted property

j. Lechuza

Acquire donations and Offers to Dedicate

k. Los Alisos

Acquire donations and Offers to Dedicate

l. Nicholas

Acquire donations and Offers to Dedicate

m. Arroyo Sequit

Acquire donations and Offers to Dedicate

Ballona Creek

Creation of entry Parks along Ballona Creek Bike Path at intersections with existing pedestrian and bike access from Cochran Avenue to the coast.

Acquisition of available parcels adjacent to Ballona Creek and Bike Path, as well tributaries for park development between Lincoln Boulevard and Cochran Avenue.

Develop southern bank of Ballona Creek for pedestrian path from Cochran Avenue and Lincoln Boulevard.

Extension of the existing Ballona Creek bike path from National Boulevard to Cochran Avenue.

Ballona Creek East

Acquire and restore open spaces for the creation of an urban natural habitat park with stormwater quality improvements. MacArthur-Lafayette Area (portion not a part of the Upper LA River Watershed) within 2 miles south of the 101 Freeway, and within 2 miles west of the 110 Freeway

Ballona Creek North

Land acquisition, trail construction and habitat restoration in the following coastal canyon sub watersheds:

a. Accept donations along the Mulholland Scenic Parkway

- b. Laurel - Acquire donations, dedications, and tax defaulted parcels.
- c. Benedict - Acquire donations, dedications, and tax defaulted parcels.
- d. Beverly Glen - Acquire donations, dedications, and tax defaulted parcels
- ☞ e. San Ysidro - Acquire donations, dedications, and tax defaulted parcels
- f. Peavine - Acquire donations, dedications, and tax defaulted.
- g. Mandeville - Acquire donations, dedications, and tax defaulted.

Acquisition and restoration in the following inland canyon tributary watersheds of Malibu Creek within the Santa Monica Mountains:

- a. Carlisle Canyon - Acquire donations and dedication
- b. Triunfo Canyon - Acquire pending dedications and donations.
- a. Lobo Canyon - Acquire donations and dedications
- b. Medea Canyon - Acquire donations and dedications.
- c. Las Virgenes Canyon - Acquire donations and dedications
- d. Liberty Canyon - Acquire dedications and donations
- e. Crummer Canyon - acquire dedications east of MRCA Crummer Canyon easement
- f. Palo Comado Canyon - Accept donations and dedications from the City of Agoura Hill

Acquisition and restoration in the Arroyo Simi watershed:

- g. Arroyo Simi - Acquire in lieu fee riparian mitigation properties
- b. Black Canyon – Pursue and accept donations and dedications north and east of Sage Ranch

- c. Runkle Canyon - Accept pending dedications

Land acquisition and restoration in the following canyons and sub-areas of the Montclef Ridge, Tierra Rejada and Santa Rosa Valleys:

- a. Acquire dedications and donations in the designated greenbelt and inter-mountain range wildlife corridor area bounded by the Arroyo Simi, Olsen Road, the 23 Freeway and Madera Road
- b. Implement Reagan Legacy Trail and Wildlife Corridor program from Alamos Canyon to the Santa Monica Mountains National Recreation Area.
- c. Acquire dedication, donations, and easement interests to maintain the wildlife corridor between the Wildwood Park and the area bounded by Olsen Road, Moorpark Road, the 23 Freeway and Tierra Rejada Road
- d. Acquire dedications, donations, and other land interests in the Las Posas Hills and Santa Rosa Valley in the area bounded by Moorpark Road, the Arroyo Simi, and Santa Rosa Road
- e. Acquire fee simple and easement interests, and dedications and donations in the Montclef Ridge Wildlife Corridor between the Joel McCrea Wildlife Preserve and Wildwood Park and the Arroyo Conejo

Land acquisition and restoration in the following canyons and sub-areas of the Calleguas Creek watershed:

- a. Arroyo Simi tributaries between Happy Camp and Alamos Canyons - accept dedications and acquire fee simple interests.
- b. Acquisition of western portion of Waste Management Land located outside Alamos Canyon drainage.
- c. Alamos - accept dedications and donations and acquire interests from Arroyo Simi to headwaters.
- d. Tapo - accept dedications and donations
- e. Chivo and Las Lajas Canyons - accept donations from small lot subdivisions
- f. Doheny Canyon: Acquire donations and Offers to Dedicate, and restoration of open space.

PP&D Prop 84
6/29/07
5

h. Calleguas Creek

Acquire conservation easements and donations in agricultural lands along Calleguas Creek at the eastern end of the Santa Monica Mountains to the Point Mugu Naval Air Station

Acquire property in the Upper Arroyo Simi in the Los Angeles County Portion of Sulfur Canyon

Acquire easements, fee simple interestes, dedications and donations in the, Portrero Valley and Conejo Mountain

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June 15, 2011

Mr. David Botelho, CPA, Chief
Office of State Audits and Evaluations
Department of Finance
300 Capitol Mall, Suite 801
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**Response to Draft Report --Audit of Santa Monica Mountains Conservancy's
Propositions 12, 13, 40, 50, and 84 Bond Funds**

Dear Mr. Botelho:

The Santa Monica Mountains Conservancy (Conservancy) has reviewed your Draft Report --Audit of Santa Monica Mountains Conservancy's Propositions 12, 13, 40, 50, and 84 Bond Funds, dated May 24, 2011.

Starting October 12, 2009, the Conservancy staff has spent the past nineteen months with your audit team and has provided all requested information and documentation. As a result of this process, the Conservancy has addressed several issues that the auditors brought to our attention. Several changes are already in place or in progress, such as the use of MOUGAS (Memorandum of Unrecorded Grant Agreement), transfer to the Conservancy of the Upper Las Virgenes Canyon Offer to Dedicate, and more detailed tracking of project expenditures within the Project Planning and Design grants. Additionally, the Conservancy is in the process of amending its grant administration manual to address some of the other observations.

Before responding to the observations and recommendations presented in the audit report, we address here the issue described in the executive summary concerning the fiscal and operational controls that separate the Conservancy and the Mountains Recreation and Conservation Authority (Authority), the local joint exercise of powers agency. The two agencies are legally and functionally independent entities, which has been repeatedly affirmed by the Court of Appeal and other courts over a number of years, and in many contexts. Additional fiscal oversight safeguards were implemented pursuant to the 2004

Mr. David Botelho, CPA, Chief
June 15, 2011

audit, and were so noted in the subsequent 2005 and 2006 audits. The courts and the previous audit statements have long since laid to rest the charge that "...having the same executives in charge of both organizations creates independence impairments that can compromise effective oversight" The 2006 Department of Finance audit report states, "These procedural and organizational changes enhance both organizations independence ... these actions adequately addressed the recommendation."

The Conservancy's responses to the observations and recommendations are as follows.

Observation 1: The \$2.1 Million Settlement Transaction Is Incomplete. State Did Not Realize Related Asset.

On behalf of the Conservancy, the Office of the Attorney General made demand on the Authority for reimbursement in cash or other consideration of comparable value. The Authority sued the Conservancy and the litigation resulted in the Ahmanson Ranch dedication area Offer To Dedicate agreement, which has been settled law since 2006. The litigation settlement was mediated by Justice Steven J. Stone, retired Justice of the Court of Appeal, affirmed by the Superior Court of Los Angeles County, approved by the Attorney General, reviewed by the Department of Finance, and was already reviewed in a past OSAE audit. The Department of General Services appraisal of the Authority valued the land offered to the Conservancy at \$6.6 million, and the Conservancy did indeed realize a related asset in the Offer To Dedicate (OTD). OTDs are legal property interests, recorded with the County Recorder, and run with the land. However, acceptance of the OTD is already in progress, see Recommendation 1A response, below.

Recommendation 1A. Provide the current status regarding acceptance of the OTD, including the additional operational costs the state will incur if the OTD is accepted and how they will be funded.

Even though the Conservancy had *indeed* realized the asset in a legal property interest valued at \$4.5 million in excess of the contested \$2.1 million amount, the Conservancy Board acted at its January 2011 meeting to accept the Offer To Dedicate. The Conservancy has sought the advice of the Attorney General on the next steps needed to officially transfer fee title and record the acceptance. Operational costs will not change as the Authority will continue to provide ranger services and routine maintenance.

Mr. David Botelho, CPA, Chief
June 15, 2011

Recommendation 1B. Because the property was already public open space, demonstrate what additional value the state received in exchange for the relief of public debt.

Simple accounting indicates that California's inventory of state assets has now increased by the \$6.6 million appraised value, less the debt amount, for a net \$4.5 million increase on its balance sheet at no cost to the State for ongoing management. Upon completion of the acceptance of the offer to dedicate, the Conservancy will hold title to a valuable and environmentally significant parcel of land that has been on the Conservancy's Workprogram.

Observation 2: The Conservancy Continues to Issue Project Planning and Design Grants That Are Not Project Specific

Division 23 of the Public Resources Code and the various bond measures (e.g., Propositions 50 and 84) authorize and direct the Conservancy to accomplish a broad range of objectives within the Santa Monica Mountains Zone, the Rim of the Valley Trail Corridor, the Upper Los Angeles River Watershed, and Coastal Watersheds of Santa Monica Bay.

To implement the Conservancy Act and its mission, the Conservancy works with a broad range of grantees to accomplish specific projects as identified in the Conservancy Workprogram and reported to the Governor and Legislature in the Annual Report (see Public Resources Code sec. 33208(a) (1) and (2)). As part of this process, the Conservancy receives an assortment of Project Planning and Design grant applications that are consistent with the Conservancy's mandate.

The demonstrated rationale for planning grants is that resulting implementation must be interconnected with other efforts on the ground and related within defined watershed areas. This is a universal practice among most conservancies.

Mr. David Botelho, CPA, Chief
June 15, 2011

The Conservancy awards Project Planning and Design grants to many cities, non-profits, and local agencies. Some of these grants are specific to a single parcel or improvement project and others cover a broader area for pre-acquisition work. The Conservancy requests advice from the Attorney General as to compliance of the scope of each Project Planning and Design grant with the General Obligation Bond Law and the provisions of the applicable bond act. The grants are not finalized without Attorney General approval. Every grantee must submit a quarterly report to the Conservancy that discloses a project's progress.

Recommendation 2A. Discontinue issuing multi-project PPD grants. Planning grants should only be issued for specific projects.

Planning grants are frequently used to determine potential projects. For efficiency, the scopes include multiple projects. However, in response to the observations in the audit report, in the future the Conservancy will award project planning grants for discrete accomplishment horizons and will limit augmentations to those potential project lists.

Recommendation 2B. Account for project and program delivery costs separately.

This request for accounting is already a matter of course. Program delivery costs are those associated with the Conservancy's support budget. Those costs associated with the development of the Conservancy Workprogram are treated as program delivery. Grants to implement the Workprogram are considered project costs.

We disagree with the auditors' assumption that planning expenditures are considered program delivery. Government Code Section 16727 provides:

The proceeds from the sale of any bonds may be used for acquisition of capital assets . . . Costs allowable under this section include costs incidentally but not directly related to construction or acquisition, including, but not limited to, planning, engineering, construction management, architectural, and other design work, environmental impact reports and assessments, required mitigation expenses, appraisals, legal expenses, site acquisitions, and necessary easements.

Mr. David Botelho, CPA, Chief
June 15, 2011

Recommendation 2C. Discontinue awarding grants for program administrative functions using capital outlay funding. Request and obtain approval for support or administrative funding from the Department of Finance.

Please see response to Recommendation 2B. The Conservancy does not award grants for program administrative funding. Program administration is provided by Conservancy staff. Staff recommends to the Conservancy approaches toward implementing the Comprehensive Plan, the Rim of the Valley Trail Corridor Master Plan, the Strategic Plan, and the Common Ground: San Gabriel and Los Angeles Rivers Watershed Open Space Plan. Staff updates and recommends the Workprogram for Conservancy approval, and provides a recommendation on the Annual Report to be submitted to the Governor and the Legislature. Conservancy staff administers the above listed program deliverables using the Support Budget. The Conservancy sets program goals.

Individual grantees are encouraged to apply for grants to plan for and implement the Conservancy's Workprogram goals. The Conservancy's grant guidelines strongly encourage potential applicants to work with the Conservancy staff to ensure that the applications have a high level of consistency with the Workprogram and high likelihood of success. This is an efficient way of administering a grant program for both recipients and the agency.

Recommendation 2D. The Natural Resources Agency should, with the assistance of legal counsel, determine the appropriate disposition (recovery or refund) of all expended bond funds used for these purposes.

No recovery or refund is warranted because funds were not used for administrative functions. All of the Conservancy's Project Planning and Design grants awarded to any of its grantees have been approved by the Office of the Attorney General, and grantee expenditures have been reimbursed in compliance with the General Obligation Bond Law and the applicable bond act.

Recommendation 2E. Obtain prior approvals as required prior to incurring Proposition 84 planning costs. If approved, separately account for these costs to ensure compliance with the 10 percent cap.

It is our understanding, per direction by the Natural Resources Agency, that the 10 percent cap does not apply in this situation since the planning costs are attributable to specific projects.

Mr. David Botelho, CPA, Chief
June 15, 2011

Observation 3: Bond Grants Fund Operation and Maintenance Activities

The Conservancy requests and follows the advice of the Office of the Attorney General and approves only those grant reimbursement requests that comply with the advice of the Office of the Attorney General, section 16727 of the General Obligation Bond Law, and the applicable bond act. Government Code section 16727 provides that proceeds from the sale of bonds may be used for the costs of construction and acquisition of capital assets.

Other Funding Sources Not Considered

The current grant application used by the Conservancy requests information on matching funds for the project. The Conservancy Board awards grants based on the merit of the project, and a pledge of matching funds is one of the criteria taken into account by the Board.

Bond Grants fund State Facility Operations

All minor capital outlay and other improvement grants have been approved by the Office of the Attorney General and expenditures have been reimbursed pursuant to the General Obligation Bond law as required.

Recommendation 3A. With the assistance of the Natural Resources Agency, legal counsel, the State Treasurer's Office, and the Department of Finance - Fiscal System and Consulting Unit, define and establish uniform definitions for capital and non-capital bond expenditures, including operations and maintenance, consistent with all pertinent authoritative sources, including the Internal Revenue Service, GAAP, SAM, and bond act provisions.

Provisions within the Budget Language of the Conservancy's Bond Appropriations direct the Conservancy to seek the advice of the Attorney General on whether or not the scope of a grant is an appropriate use of the bond.

Recommendation 3B. Review project costs for all similar grants in addition to the projects noted above to ensure accurate bond reporting requirements are met.

All expenditures have been reimbursed in compliance with the General Obligation Bond Law.

Mr. David Botelho, CPA, Chief
June 15, 2011

Recommendation 3C. Perform a post-grant monitoring review on state properties managed by the Authority in accordance with Grant Procedures section 5 to ensure the Authority is adequately maintaining the projects.

The Conservancy has, and will continue to, perform post-grant monitoring on all projects for all grantees in accordance with its Grant Procedures, section 5. The Conservancy staff frequently visits these sites and is aware of the progress on a consistent basis. In addition, the Authority Chairperson reports at the Conservancy board meetings.

Recommendation 3D. Require the Authority to demonstrate how all funding sources noted above were used in conjunction with bond funds.

At the end of a project, the Conservancy can request its grantees to report any matching funds it has received and used for the grant-funded project, as part of the project completion report.

Observation 4: Grants with Overlapping Scopes, Projects, and Time Periods Lead to Lack of Project Cost Accountability

The Conservancy has awarded a series of grants for individual park locations. More specifically, with the development of a new or existing park, the final scope and design of that park development can be a work in progress over a substantial amount of time. It is often in the Conservancy's interest to make an initial Project Planning and Design grant at a relatively smaller amount to allow a grantee to further refine a project or set of projects at a specific park. Furthermore it is common practice that a project will develop in phases.

As projects are adequately refined and a funding need is demonstrated, a prior grantee can apply for additional planning or capital outlay grants to achieve one or more projects at a single park location. The source of Conservancy bond funding often depends on timing and the availability of specific bond funds when the request occurs. Sometimes different grants from different funding sources are awarded at the same time to cover specific requested project needs consistent with the criteria of each bond.

If there is overlap between grants to a single grantee, whether for time period, a project component, or park location, that overlap is by design to best implement the Conservancy's objectives through a specific grantee. Grant applications and associated Conservancy staff reports detail the rationale for such grant overlap in implementing the Conservancy Act.

Mr. David Botelho, CPA, Chief
June 15, 2011

Each grant scope is subsequently approved by the Attorney General's office with an advice letter.

Recommendation: Discontinue awarding multi-project (block) grants and only award bond grants on a specific project basis.

The Conservancy does not award "block grants."

Observation 5: The Conservancy Has Not Established Grantee Indirect Costs Policies

Recommendation: Develop policies to define and establish limits over grantee indirect costs. Evaluate current costs included in the Authority's indirect cost allocation plan to identify potential cost savings.

The Authority adopted a cost allocation plan after the 2004 audit, the methodology of which was approved by the Department of Finance.

The Conservancy does not require limits on indirect costs at the time of grant issuance, in accordance with OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Government* and generally accepted accounting principles. However, the Conservancy will request all grantees to explain their indirect costs methodology and provide justification for those costs, particularly vehicle and cell phone usage. A 50% cutback in vehicles assigned to non-field personnel will be urged, likewise the elimination of non-critical cell phone assignments.

Observation 6: Inadequate Grant Contracting and Monitoring Leads to Lack of Accountability and Transparency Over Bond Funded Projects

We disagree strongly that there is any lack of accountability and transparency over Conservancy bond funded projects. Many of the issues mentioned in observation 6, such as project status reports, have not changed since the 2006 audit when they were found to be adequate. It should also be noted that many issues listed in this observations have previously been addressed in the observation responses above.

Recommendation 6A. Require all grant agreements to include detailed project scopes, tasks, and corresponding budgets.

Mr. David Botelho, CPA, Chief
June 15, 2011

The Conservancy is in the process of amending the grant administration manual to establish a consistent process for describing tasks and budgets for all grantees. The Office of the Attorney General has found the scopes sufficiently detailed to render an opinion on the Conservancy grants. In addition, scopes are very detailed and comprise not only the summary scope found in the contract documents, but also the supporting application materials and staff reports.

Recommendation 6B. Require grantees to submit (1) reimbursement claims consistent with detailed project tasks and corresponding costs, and (2) progress reports with sufficient details to determine which budgeted tasks were performed and the current status of the project.

As in the response above, the Conservancy is in the process of amending the grant administration manual to address these recommendations.

Recommendation 6C. Develop and implement final project completion procedures and reports that include final site visit documentation, authorized signatures, and pre- and post - project photographs.

We agree. The Conservancy already visits completed project sites and participates in the dedication events. It currently collects reports and photographic documentation on grant projects, including agendaizing grantee presentations to the Conservancy Board. As in the response above, the Conservancy is in the process of amending the grant administration manual to more formally address the recommendation.

Recommendation 6D. Require grantees to disclose and report all project funding sources available, including matching contributions (if applicable).

As in the response above, the Conservancy is in the process of amending the grant administration manual to address these recommendations.

Recommendation 6E. Require grantees to submit post-grant monitoring reports for acquisition and development projects as part of the grant agreement, and periodic conditions reports after project closure.

As in the response above, the Conservancy is in the process of amending the grant administration manual to address these recommendations.

Mr. David Botelho, CPA, Chief
June 15, 2011

Recommendation 6F. Require the MOUGA as a standard condition to the grant agreement for acquisition projects.

This procedure has been in place since 2010.

Recommendation 6G. Ensure reconciliation of project status information to the Conservancy's accounting records to ensure all bond projects are accurately tracked and reported.

The Conservancy staff works continuously with its fiscal services agent, the Department of General Services-Contracted Fiscal Services (DGS-CFS), to ensure correct tracking. All Conservancy accounting records are maintained and held by DGS-CFS.

Regarding project status information provided on the state bond accountability websites, there have been some problematic issues for accurate tracking. The Prop 40 and 50 public website requires a separate entry for every fiscal year and watershed rather than the entire project as a whole. That means there are multiple entries for the same project. Therefore, by design, the list from the website (by entry) will not match the Conservancy list (by project). The Conservancy's projects on the Prop 84 website are being currently updated.

Observation 7: Real Property Is Not Accurately Recorded and Reported

The Department of General Services (DGS) officially keeps the Conservancy's accounting system, Financial Statements and Inventory. SAM section 1335.1 states that DGS is required to maintain a complete and accurate statewide property inventory (SPI) of all real property held by the State of California. Pursuant to Section 1335.1 the Conservancy reviews the SPI. We make the necessary additions and deletions and submit them annually as directed. However, we find that our additions, corrections, and deletions from prior years in some cases were not made by the Department of General Services.

The Conservancy holds duplicate records of Conservancy real property transactions dating back to 1994 in a file designated the Deed File. This duplicate system was voluntarily implemented and is not a state requirement.

Recommendation 7A. Perform a comprehensive inventory of state owned real property and provide the information to the Department of General Services for inclusion in the SPI. Maintain documentation of the inventory.

Mr. David Botelho, CPA, Chief
June 7, 2011

The Conservancy is already in compliance with this recommendation.

Recommendation 7B. Upon completion of the inventory, perform a reconciliation of records among the deed file, financial statements, and the SPI. Document any adjustments. Thereafter, perform periodic reconciliations as required.

The Conservancy will work with the Department of General Services - Contracted Fiscal Services to complete the property reconciliation requirements outlined in SAM section 7924.

Conclusion

The Conservancy appreciates the opportunity to respond to the Draft Audit Report and has approached the audit process and recommendations as an opportunity for continuous improvement. As noted herein, several of the recommendations are already being implemented by the Conservancy. The Conservancy mission, Workprogram, planning policies, cooperation with Federal, state, and local governments and communities, and grants continue positively contributing to Southern California's interconnected protected areas and recreational opportunities and restoration efforts.

Sincerely,

Original signed by:

ANTONIO GONZALEZ, CHAIRPERSON
Santa Monica Mountains Conservancy

cc: Patrick Kemp, California Natural Resources Agency
Bryan Cash, California Natural Resources Agency
Julie Alvis, California Natural Resources Agency
Santa Monica Mountains Conservancy Board (SMMC)
George Lange, Chair, and Governing Board Members, Mountains Recreation and Conservation Authority (MRCA)
Jim Friedl, Financial Officer, MRCA; General Manager, Conejo Recreation and Park District (CRPD)

Mr. David Botelho, CPA, Chief
June 7, 2011

Sheryl Lewanda, CPA, Deputy Financial Officer, MRCA; Management
Services Administrator, CRPD

Jeff Maloney, Staff Counsel, MRCA

Joseph T. Edmiston, FAICP, Hon. ASLA, Executive Director, SMMC; Executive
Officer, MRCA

Laurie Collins, Staff Counsel, SMMC

Rorie Skei, Chief Deputy Director, SMMC



MOUNTAINS RECREATION & CONSERVATION AUTHORITY
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Los Angeles, California 90065
Phone (323) 221-9944 Fax (323) 221-9934

June 15, 2011

Mr. David Botelho, CPA, Chief
Office of State Audits and Evaluations
Department of Finance
300 Capitol Mall, Suite 801
Sacramento, California 95814

**Response to Draft Report --Audit of Santa Monica Mountains Conservancy's
Propositions 12, 13, 40, 50, and 84 Bond Funds**

Dear Mr. Botelho:

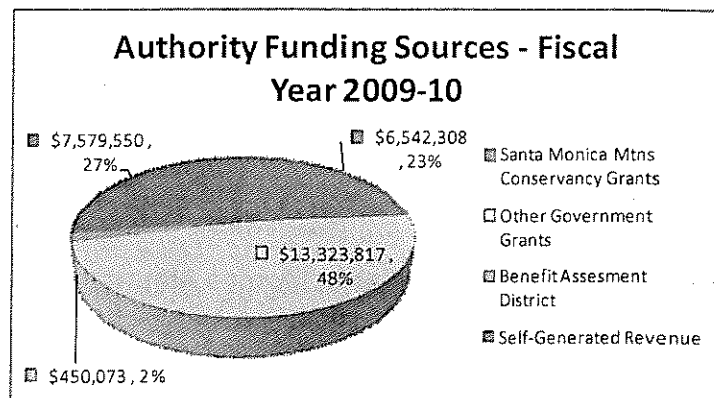
The Mountains Recreation and Conservation Authority (Authority) has reviewed your Draft Report --Audit of Santa Monica Mountains Conservancy's Propositions 12, 13, 40, 50, and 84 Bond Funds, dated May 24, 2011.

The Authority is responding because the Draft Audit Report included a limited review of the Authority's bond projects and related controls.

Authority staff worked with your audit team and provided all requested information and documentation. Several changes suggested by the auditors are already in place or in progress, such as more detailed tracking of project expenditures within the Project Planning and Design grants, and review of overhead with a goal of reducing costs.

The draft audit report executive summary articulates concerns with the fiscal and operational controls that separate the Authority and the Conservancy. The Authority is a local joint exercise of powers agency established pursuant to Government Code Section 6500 *et seq.* The two agencies are legally and functionally independent entities, whose independence has been well established by the courts. Additional fiscal oversight safeguards were implemented pursuant to the 2004 audit, and were so noted in the subsequent 2005 and 2006 audits. The 2006 Department of Finance audit report states, "These procedural and organizational changes enhance both organizations independence . . . these actions adequately addressed the recommendation." The Authority would also like to note that the Conservancy provided the Authority just twenty-three percent of the Authority's revenue during Fiscal Year 2009-10, as shown in the graph below.

Mr. David Botelho, CPA, Chief
June 15, 2011



Please note, that while the Conservancy and Authority may have complementary organizational goals and objectives, they each have separate, independent Governing Boards, who set their organization's policies, goals, and work plans.

Pursuant to Section 11.2 of the Joint Exercise of Powers Agreement, revised November 2004, an annual Workprogram is adopted by the Authority's Governing Board prior to the adoption of the annual budget by the Conejo Recreation and Park District, the Rancho Simi Recreation and Park District, and the Conservancy.

The Authority's responses to the observations and recommendations are as follows.

Observation 1: The \$2.1 Million Settlement Transaction Is Incomplete. State Did Not Realize Related Asset.

The Conservancy will respond to this Observation.

Observation 2: The Conservancy Continues to Issue Project Planning and Design Grants That Are Not Project Specific

During the audit, it was noted that the Authority was not tracking the costs of Project Planning and Design grants by specific project. Upon clarification from the auditors regarding what level of detail they desired, effective with the payroll period ending February 20th, 2011 costs by specific project are being tracked to the level that the auditors requested.

Mr. David Botelho, CPA, Chief
June 15, 2011

Recommendation 2A. Discontinue issuing multi-project PPD grants. Planning grants should only be issued for specific projects.

Planning grants are frequently used by the Authority to determine potential projects for feasibility and implementation. For efficiency and integrated planning, the scopes include multiple projects. This is common practice among many agencies. In addition to those from the Conservancy, the Authority has received planning grants from the Baldwin Hills Regional Conservation Authority, Baldwin Hills Conservancy, State Coastal Conservancy, Environment Now, Caltrans, and Los Angeles County Department of Health Services, for example.

Recommendation 2B. Account for project and program delivery costs separately.

The Conservancy will respond to this Recommendation.

Recommendation 2C. Discontinue awarding grants for program administrative functions using capital outlay funding. Request and obtain approval for support or administrative funding from the Department of Finance.

The Conservancy will respond to this Recommendation.

Recommendation 2D. The Natural Resources Agency should, with the assistance of legal counsel, determine the appropriate disposition (recovery or refund) of all expended bond funds used for these purposes.

The Conservancy will respond to this Recommendation.

Recommendation 2E. Obtain prior approvals as required prior to incurring Proposition 84 planning costs. If approved, separately account for these costs to ensure compliance with the 10 percent cap.

The Conservancy will respond to this Recommendation.

Mr. David Botelho, CPA, Chief
June 15, 2011

Observation 3: Bond Grants Fund Operation and Maintenance Activities

The Conservancy will respond to this Observation.

Recommendation 3A. With the assistance of the Natural Resources Agency, legal counsel, the State Treasurer's Office, and the Department of Finance - Fiscal System and Consulting Unit, define and establish uniform definitions for capital and non-capital bond expenditures, including operations and maintenance, consistent with all pertinent authoritative sources, including the Internal Revenue Service, GAAP, SAM, and bond act provisions.

The Conservancy will respond to this Recommendation.

Recommendation 3B. Review project costs for all similar grants in addition to the projects noted above to ensure accurate bond reporting requirements are met.

The Conservancy will respond to this Recommendation.

Recommendation 3C. Perform a post-grant monitoring review on state properties managed by the Authority in accordance with Grant Procedures section 5 to ensure the Authority is adequately maintaining the projects.

The Conservancy will respond to this Recommendation.

Recommendation 3D. Require the Authority to demonstrate how all funding sources noted above were used in conjunction with bond funds.

The Auditors note that the Authority has revenues in addition to grants from the Conservancy, including funds from LA County Regional Park and Open Space District (Proposition A), Benefit Assessment Districts, and revenues from weddings, special use permits, conferences, and filming.

Non-grant fund revenues to the Authority are used for those services and supplies that are not eligible for grant funding. As part of the budget process, and throughout the year, the

Mr. David Botelho, CPA, Chief
June 15, 2011

Authority evaluates the revenue sources available to it and any restrictions thereon, in order to determine the best way to accomplish its goals.

The Authority will respond to Conservancy requests for information relating to the use of its revenues in conjunction with bond funded projects.

Observation 4: Grants with Overlapping Scopes, Projects, and Time Periods Lead to Lack of Project Cost Accountability

Upon receipt of the Conservancy's revised grant administration manual, the Authority will strive to meet updated standards for the submission of project status reports and reimbursement invoices, in an effort to provide greater clarity and understanding to a third-part reader regarding the status of state grant funded projects.

The Authority continues to maintain its accounting systems to assure that there is no duplicate payment of invoices - in either the same grant or in multiple grants.

Recommendation: Discontinue awarding multi-project (block) grants and only award bond grants on a specific project basis.

The Conservancy will respond to this Recommendation.

Observation 5: The Conservancy Has Not Established Grantee Indirect Costs Policies

The Conservancy will respond to this Observation.

Recommendation: Develop policies to define and establish limits over grantee indirect costs. Evaluate current costs included in the Authority's indirect cost allocation plan to identify potential cost savings.

The Authority's cost allocation plan was revised and adopted after the 2004 audit, the methodology of which was approved by the Department of Finance.

Mr. David Botelho, CPA, Chief
June 15, 2011

In response to the Auditor's comments regarding allocation of fleet costs, effective with the payroll period ending September 5th, 2010, the allocation was modified so that transportation costs are allocated to projects based on actual reported hours of each individual assigned a vehicle.

The auditors also noted that the Authority does not have a written service agreement with the Conejo Recreation and Park District (District) for the accounting and fiscal services the District provides the Authority. The Authority and the District will develop a written agreement.

Lastly, the auditors suggested that vehicle and cell phone costs be reviewed to achieve savings. The Authority regularly reviews its expenses for potential savings. Since the time of the audit, the percent of vehicles with take home permits dropped from 70% to 39%. The take home vehicles are driven primarily by sworn personnel, employees who are assigned park resident status, and those who have after-hours responsibilities. In these cases, access to an agency vehicle provides for quick response to emergency situations, and ready access to emergency and safety equipment, tools, and communications gear. The Authority is a first-responder for emergencies and natural disasters. The Authority is currently analyzing further reductions to achieve 50% reduction in vehicle assignments to non-field staff.

The Authority has made significant reductions by eliminating a pager system for field and emergency response staff, in favor of cell phones. Since the management of parklands is inherently "out of the office" the use of such phones allows personnel to stay in the field and receive work assignments, map locations, memos, emails, photographs and telephone calls, increasing efficiency and service levels while saving time and money. The Authority is in the process of evaluating non-field, non-emergency staff cell phone assignments.

The Auditors note that the Conservancy has not established limits on grantee indirect costs. The Authority's indirect costs are calculated as the result of a Cost Allocation Plan in accordance with OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Government* and generally accepted accounting principles. The costs included in the plan are reviewed annually as part of the Authority's budget development process.

Mr. David Botelho, CPA, Chief
June 15, 2011

Although the intent of a policy limiting indirect costs is often to “encourage” completion of projects at less cost, in reality the opposite can occur. An arbitrary ‘cap’ prohibits agencies like the Authority from using ‘force account’ (in-house) labor as a cost saving measure on grant funded projects.

As an example, the Authority recently paid one of its contractors \$130 for one hour of ‘meeting attendance’. This item, if included as a direct cost, would not have been challenged by the granting agency as it is a reasonable and necessary expense in completing the project. An equivalent Authority employee attending the same meeting has an hourly pay rate of \$24. Using the Department of Finance approved cost methodology for indirect costs, the Authority would bill the grant a maximum of \$60.25 for this same one hour meeting, resulting in a net **savings** to the State of \$69.75 or 54 percent.

Observation 6: Inadequate Grant Contracting and Monitoring Leads to Lack of Accountability and Transparency Over Bond Funded Projects

The Authority has been fully accountable and transparent with *all* grants received from the Conservancy.

Observation 7: Real Property Is Not Accurately Recorded and Reported

The Authority maintains records of all property it has acquired, in its deed files and property database, and property transactions are recorded with the appropriate County Recorder's Office.

Conclusion

The Authority appreciates the opportunity to respond to the Draft Audit Report and continuously improve. As noted herein, several of the recommendations are already being implemented. The Authority proactively secures and maintains rivers, urban, and mountain public parklands at a regional level while maintaining a growing 60,000 acre regional park system at multiple locations and reacting to public parkland acquisition opportunities. Since

Mr. David Botelho, CPA, Chief
June 15, 2011

it was created by a Joint powers Agreement in 1985, the Authority has worked with state, federal, and local partners in an effective collaboration that implements park acquisitions and management in an efficient, transparent, and cost effective manner.

Sincerely,

Original signed by:

George Lange, Chairperson
Mountains Recreation and Conservation Authority

cc: Governing Board Members, MRCA
Jim Friedl, Financial Officer, MRCA; General Manager, CRPD
Sheryl Lewanda, CPA, Deputy Financial Officer, MRCA; Management Services
Administrator, CRPD
Jeff Jones, Assistant Financial Officer, MRCA
Jeff Maloney, Staff Counsel, MRCA
Joseph T. Edmiston, FAICP, Hon. ASLA, Executive Director, SMMC; Executive
Officer, MRCA
Patrick Kemp, California Natural Resources Agency
Bryan Cash, California Natural Resources Agency
Julie Alvis, California Natural Resources Agency
Santa Monica Mountains Conservancy Board

EVALUATION OF RESPONSES

We have reviewed the Conservancy's and Authority's responses and acknowledge their agreement to implement several of the recommendations identified in our report. Based on our evaluation of the responses, we provide the following comments for the areas where the responses did not fully address the audit observations and recommendations, or where we believe further clarification is warranted.

In response to the Conservancy's statement regarding the audit's length of time, we note that access to information and staff required coordination of the Conservancy's and Authority's legal counsel. Specifically, at the request of the Conservancy and Authority, all requested audit information was reviewed by legal counsel, and interviews required legal counsel presence. We informed the Conservancy and Authority at the beginning of the audit that this process would significantly prolong the audit timeline.

The Conservancy states both entities, the Conservancy and the Authority, are legally and functionally separate. As stated in our prior audits, while we recognize the current organizational structure is legally permitted, the structure does not necessarily ensure internal accounting and administrative controls are adequate. Further, while we acknowledged the additional fiscal oversight by the governing boards in prior audits, we noted these boards do not have the time or resources to manage *daily* operations. Having the same executives in charge of both organizations (as grantor and grantee) creates impairments to fiscal and administrative controls as illustrated by some of the practices and fiscal weaknesses noted in this audit report.

Observation 1: The \$2.1 Million Settlement Transaction Is Incomplete—State Did Not Realize Related Asset

The Conservancy states that Finance reviewed the settlement transaction in a previous audit. This is incorrect. As noted in our May 2006 audit, the Attorney General's Office (AG) was reviewing the settlement agreement and information was not disclosed to Finance due to attorney client privilege.

The Conservancy claims the state realized an asset in legal property interest; however, the acceptance of the OTD has not been completed. Therefore, no accounting transactions have occurred. Additionally, the subject property was previously dedicated as public open space by the Ahmanson Land Company in 1998. The Authority retained title to the land for stewardship purposes and for the benefit of the public. As a result, the public realized the land value and benefited from this land transaction at that time. Eight years later, the property was used in exchange for a relief of public debt in the 2006 settlement agreement. Our report requested clarification as to what *additional* value and benefit the public received in exchange for the relief of \$2.2 million debt. It is unclear how public property can be used to pay for a debt owed to the public. Lastly, the Conservancy states it is seeking the AG's advice on the next steps to officially transfer title. Based on previous communications between the AG and Finance, it is our understanding that the land transaction is subject to the Public Works Board's approval.

Observation 2: The Conservancy Continues to Issue Project Planning and Design Grants That Are Not Project Specific

The Conservancy states, “We disagree with the auditors’ assumption that planning expenditures are considered program delivery.” This is an incorrect interpretation of the audit observation. As noted in the report, preliminary planning costs that are not project specific are considered program delivery because they are not attributable to a specific project. As the Conservancy noted in its response, these grants “cover a broader area for pre-acquisition work.” Project specific planning costs that are *incidental but directly related to the construction or acquisition of a capital asset* are considered project costs. This is consistent with generally accepted accounting principles and the general obligation bond law, which recognizes certain pre-acquisition costs for capitalization purposes. Examples of pre-acquisition costs include but are not limited to, *property specific* appraisals, surveys, architectural fees, and planning/design costs. As such, planning costs must be accounted for on a project specific basis.

The Authority states it has taken action to track costs by specific project effective February 20, 2011.

Observation 3: Bond Grants Fund Operation and Maintenance Activities

Throughout its response to a number of observations, the Conservancy states it requests and follows the AG's opinion for all approved bond grants; however, as stated in our report, because we identified some ambiguities regarding capital and non-capital definitions and bond funded activities, we recommended further review. Our recommendation remains as stated in our report.

Additionally, according to the Conservancy, it reviews project match funds during merit reviews and performs post-grant monitoring on all projects. Furthermore, the Conservancy states that it *can* request grantees to report match funds received and used for the grant-funded project as part of the completion report. Based on our audit, the Conservancy could not demonstrate the performance of these activities because there was no documentation. As a result, we continue to recommend the Conservancy perform and document post-grant reviews and to require the Authority to report match funds received and how they were used in conjunction with bond funds.

Observation 4: Grants With Overlapping Scopes, Projects, and Time Periods Lead to Lack of Project Cost Accountability

The Conservancy's response did not adequately address the issues noted in the observation. Our recommendation remains as stated in the report.

Observation 5: The Conservancy Has Not Established Grantee Indirect Costs Policies

Finance reviewed the Authority's cost allocation methodology that was adopted after the 2004 audit and noted its general consistency with OMB Circular A-87. However, cost allocation plans define the distribution methodology of indirect costs and do not establish indirect cost limits for grantees to follow. The bond acts encourage departments to limit indirect costs to ensure funds are primarily used for direct project costs. Our recommendation remains as stated in the report.

The Authority is taking action to address areas noted for improvement related to the transportation cost pool allocation, lack of written service agreement with Conejo Recreation and Park District, and vehicle and phone usage.

Observation 6: Inadequate Grant Contracting and Monitoring Leads to Lack of Accountability and Transparency Over Bond Funded Projects

The Conservancy is taking corrective actions to address the recommendations by amending its grant administration manual. Although our prior audit reports acknowledged measures planned by the Conservancy to address audit recommendations, full implementation is reviewed during subsequent audits.

Observation 7: Real Property Is Not Accurately Recorded and Reported

The Conservancy claims compliance with SAM section 1335.1 real property reporting requirements. The SAM section also notes availability of assistance in determining whether appropriate documents are being provided. The Conservancy should consult with the State Property Index unit to ensure the appropriate documentation is provided when requesting property changes.

We believe implementation of the recommendations and planned corrective actions will strengthen both organizations' internal control and accountability for bond funds. However, these issues, if left unresolved, will continue to adversely affect bond accountability.